

NATIONAL SECOND MORTGAGE ASSOCIATION



**SECOND MORTGAGE
STATISTICAL SURVEY
FOR THE YEAR 1986**

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Second Mortgage Survey, 1986

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Abstract:

This report analyzes responses to the National Second Mortgage Association's annual questionnaire on firms' second mortgage lending activities, loan terms, policies, and profits. Responses to the questionnaire which were received by the end of September, 1986, are included in all the statistical results presented here. Data from seven additional questionnaires received in early October are included in most, but not all of the tables. The questionnaire data show that the fifty-seven respondents who provided numerical data held nearly \$19 billion in second mortgages outstanding at year-end 1986, and serviced an additional \$1 billion. Thus, questionnaire respondents accounted for \$20 billion in second mortgages outstanding and serviced at year end 1986.

The survey data show that rapid growth in the second mortgage market continued in 1986, as the typical respondent reported a growth rate of 19.6% in year-end net outstandings and 26.6% in the net value of originations over 1985. Analysis of more detailed data provided on the survey questionnaires shows that the growth in second mortgage outstandings in 1986 resulted from solid growth in

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originations. The average size of second mortgages originated typically increased by almost 7%, and, in addition, the typical lenders originated 12% more second mortgages in 1986 than in 1985.

In addition to data on second mortgage loan balances, originations, sizes, and growth, the questionnaire data provided useful insights into second mortgage renewals and cash liquidation rates, second mortgage loan terms; secondary market activity; loan delinquencies, losses and chargeoffs; and the profitability of second mortgage lending. The data also provided useful insights into second mortgage pricing; the use of private mortgage insurance; foreclosure and chargeoff policies; and adjustable rate, balloon, revolving and home equity lending.

As has been true in the past, the data indicate that respondents' losses on second mortgage lending generally were quite low. Typical foreclosures were only one-half of one percent of reported outstandings. Net chargeoffs, once again, were only a little more than half as large as foreclosures. Furthermore, total second mortgage delinquencies (of over 60 days) were typically only 1 1/2 to 1 3/4 percent. However, in spite of the good overall statistics, a few lenders experienced serious loss and delinquency problems in 1985, with foreclosure rates as high as 10%.

Overall, except for two lenders who incurred losses, second mortgage lending was highly profitable for most lenders in 1986. The reason was that, in general, second mortgage lenders' costs of funds were substantially lower than their average portfolio yields in 1986. This was true even though downward pressure on second mortgage loan rates was quite evident in all states.

Other key data show that second mortgage cash liquidation rates typically averaged 31.5% and ranged between 23% and 56% at different types of lenders. Liquidation rates unadjusted for renewals were somewhat higher, with a typical value of 37.7%. Liquidation rates were up by 3% to 5% from 1985, probably because of the high volume of first mortgage refinancing that occurred in 1986.

The experience of second mortgage lenders varied widely among lender groups. Each reader will need to consult the detailed data compiled by lender group in each of the tables to analyze the experience of the lender groups in which he or she is most interested. Separate data are reported for mortgage bankers, savings associations (including mutual savings banks), commercial banks, bank affiliated finance companies with large holdings of second mortgages, bank affiliated finance companies with smaller holdings of second mortgages, and non-bank finance companies with smaller holdings of second mortgages.

Second mortgage growth, loan size, delinquency, and foreclosure experience also varied widely across states. The final section of this report describes interstate differences in second mortgage lending.

TABLE OF CONTENTS: 1986 SECOND MORTGAGE SURVEY

Abstract:

- I. Overview
- II. Characteristics of Second Mortgage Lending in 1986
 - A. Loan Terms
 - B. Growth in Second Mortgage Lending
 - C. Second Mortgage Originations and Renewals
 - D. Second Mortgage Liquidation Rates
 - E. Secondary Market Activity
 - F. Revolving Lending
 - G. Adjustable Rate and Balloon Mortgages
 - H. Indirect and Direct Lending
 - I. Loan Rates
 - J. Private Mortgage Insurance
- III. Delinquencies, Foreclosures, and Chargeoffs on Second Mortgages
 - A. Delinquency Rates
 - B. Foreclosure Rates and Policies
 - C. Chargeoffs
- IV. Profitability of Second Mortgage Lending
 - A. Income Accounting
 - B. Profits
 - C. Interest Costs and Revenue Sources

V. Home Equity Lending

A. Home Equity Loan Originations, Outstandings, Line Utilization, and Growth

B. Home Equity Loan Terms

C. Interest Rates on Home Equity Loans

D. Non-Rate Loan Terms

VI. State Specific Data

A. Outstandings, Originations, and Growth

B. Loan Rates and Sizes

C. Comparative Delinquency Rates

D. Foreclosure Experience

VII. Conclusions

Appendix: The 1987 Questionnaire

EXHIBIT 1: TABLES BY TOPIC

<u>Table</u>	<u>Topic</u>
1	Characteristics of 1987 NSMA Questionnaire Respondents
2	Key Statistics on Second Mortgage Lending by NSMA Questionnaire Respondents
3	Non-Rate Loan Terms, 1986
4	Growth in Second Mortgage Lending During 1986
5	Second Mortgage Originations and Renewals, 1986
6	Liquidation Rates
7	Secondary Mortgage Market Activity, 1986
8	Revolving Lending
9	Adjustable Rate, Balloon, and Indirect Second Mortgages
10	Rate Indices Used to Adjust Rates on Second Mortgages
11	Interest Rates Charged on Different Types of Second Mortgage Loans
12	Private Mortgage Insurance Policies of Second Mortgage Lenders, 1986
13	Second Mortgage Delinquency Rates, Year-End 1986
14	Foreclosure Policies of Second Mortgage Lenders, 1986
15	Second Mortgage Foreclosure Rates, 1985 and 1986
16	Details on Foreclosures, 1986
17	Second Mortgage Charge-Offs in 1986
18	Charge-Off Policies of Second Mortgage Lenders, 1986
19	Income Recognition Policies of Second Mortgage Lenders, 1986
20	Profitability of Second Mortgage Lenders, 1986
21	Interest Income and Expense of Second Mortgage Lenders, 1986

- 22 Second Mortgage Lenders' Revenues as Percent of Average Outstandings
- 23 Second Mortgage Lenders' Non-Interest Revenues, 1986
- 24 Home Equity Loans: Outstandings, Originations, and Usage
- 25 Home Equity Loans: Loan Draw and Payment Conditions
- 26 Interest Rate Determination for Home Equity Loans
- 27 Home Equity Loans: Non-rate Terms
- 28 Key State Data, 1986
- 29 Key Ratios Applicable to Lenders in each State

SECOND MORTGAGE SURVEY, 1986

Richard L. Peterson*

I. Overview:

This study is part of a continuing series of studies that the National Second Mortgage Association (NSMA) has conducted of its members in order to obtain as much information as possible about the nature of the second mortgage market. The first study was conducted in 1978 by Peat, Marwick and Mitchell. Subsequently, the present author worked with the National Second Mortgage Association and the Credit Research Center to send questionnaires to NSMA second mortgage lenders in 1979, 1980 and 1981. Summary reports compiled from those questionnaires were published by Purdue University's Credit Research Center as Working Papers No. 33, 39, and 42 -- which are available at a price of \$6.00 each (plus first class postage if prompt delivery is desired). The 1982, 1983, 1984, 1985, and 1986 studies also were prepared by the present author. Back copies of some of these may be available through the NSMA. Preliminary working papers used to compile the NSMA report are available after the NSMA report is distributed for \$10 each (with no postage charge) from Texas Tech University's Institute for Banking and Financial Studies, Lubbock, Texas 79409. The present

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report, as was the case in years past, has been prepared for distribution by the National Second Mortgage Association to its members.

The data analyzed in this report were obtained from NSMA members responses to a questionnaire mailed in mid-1987. All NSMA members were mailed detailed questionnaires to complete and return to the National Second Mortgage Association (a copy of the 1987 questionnaire is contained in the Appendix). The 1987 questionnaire is different from previous questionnaires because it requests a substantial amount of information on home equity lending in a special supplement. Home equity lending, due to the 1986 tax law revisions, may be the fastest growing area of consumer lending. The balance of the 1987 questionnaire is very similar to the 1986 questionnaire, albeit, the 1987 questionnaire was revised to delete some little used data and to obtain clearer responses to some questions.

In order to facilitate comparisons with previous years' data this report uses the same outline and essentially the same table format as last year's report. There are, however, several major differences. First, expanded coverage has been given home equity lending. The data relevant to that analysis is presented in new Tables 24, 25, 26, and 27. To make room for the new tables, the tables with state specific data (old Tables 24 and 25), now are Tables 28 and 29. In addition, because much information relevant to the old Table 11 on Indirect Lending and the "priority" of second mortgages was deleted, the remainder of the data on those

topics is now presented in Table 9. Finally, because this survey contains much more detail on loan rates -- including high, low, typical and yearend rates for fixed-rate, adjustable-rate, and revolving second mortgages -- the data on loan rates have been divorced from the data on non-rate loan terms (Table 3) and are now presented in a new table (Table 11) devoted solely to loan rate information.

This year a total of fifty-seven institutions returned completed questionnaires. The data submitted on the returned questionnaires provided valuable insights into the nature of growth in second mortgage originations and outstandings; second mortgage loan sizes, rates, and terms; second mortgage loan refinancings, liquidations, and cash flows; the use of private mortgage insurance on second mortgages; secondary market participation; second mortgage delinquency ratios, foreclosures, and chargeoffs; and factors affecting revenue sources and the overall profitability of second mortgage lending. The responses also provide substantial new and useful information on home equity lending. Possibly because the new expanded questionnaire is more difficult to complete, and possibly because fewer non-NSMA members provided data this year, the number of responses (at 57) was down somewhat from the 66 responses received in 1986. However, the quality of data received from most respondents was quite good.

Due to improvements in the questionnaire and considerable care taken by most of the respondents, the data reported in the 1984, 1985, 1986, and 1987 questionnaires are far more comprehensive, and

should be more reliable and useful, than data reported before 1982. Reporting accuracy was particularly good in the last two years.

However, there were still some reporting problems associated with the survey. Many companies did not provide detailed data on all topics for which data were sought -- particularly for data used in the profitability analysis (Tables 20, 21, 22, and 23). Consequently, some of the reported data are not as comprehensive or detailed as might be desirable. This was particularly the case since a number of reporters were unable to isolate data (such as delinquencies, foreclosures, profits, or revenues) relating solely to second mortgages from their other operating data. Thus, some responses were omitted as either no data were provided or the author concluded that the data provided were either unreasonably large or unreasonably small.

Since most data reported appeared to be reasonably good, the major reporting problem this year resulted from the fact that many responses were late. While most responses were received by the end of June or shortly thereafter, as requested, others trickled in over a long period of time. In fact, seven were received in October. As a result, it was not possible to check all those responses thoroughly as to their data quality and complete this report on a timely basis. As a result, some tables were completed without data from the last seven respondents, and some high or low observations in other tables may be higher or lower than might have been the case if all data reporting and recording errors could have been thoroughly corrected.

The remainder of this report summarizes data obtained from the 1987 NSMA questionnaire. The data relate to outstanding second mortgage stocks as of December 31, 1986, and to second mortgage transactions during 1986. Because of the distinct nature of different financial entities, data are reported separately for the following categories of reporters:

<u>Category</u>	<u>Table designation</u>
1. Savings and loan associations and savings banks.	Thrfts
2. Commercial banks	C. Banks
3. Mortgage bankers (including self-reported mortgage bankers, as well as other institutions that primarily serviced second mortgage loans).	M. Bankers
4. Non-bank finance companies holding \$100 million or less in second mortgages.	SHF Co.
5. Non-bank finance companies holding over \$100 million in second mortgages.	LHF Co.
6. Bank-affiliated finance companies holding \$100 million or less in outstanding second mortgages.	SHBF Co.
7. Bank-affiliated finance companies holding over \$100 million in outstanding second mortgages.	LHBF Co.

A breakdown of survey respondents, by reporting category, is given in Table 1. Some key data reported in the survey questionnaire are summarized in Table 2. Much more detailed and analytical data follow in tables 3 through 20.

In Table 2 summary data are compiled for key statistics on second mortgage outstandings, servicings, originations, foreclosures, and charge-offs. The number of respondents providing constituent data is given in parentheses at the side of each column. The first 6 sections of the table record data obtained in the 1987 NSMA questionnaire

from survey respondents. The last section reports on summary statistics obtained from a separate membership form that NSMA members submit when they join or renew their NSMA memberships. The data in Section VII are more comprehensive, but far less detailed, than the questionnaire data.

The data presented in Table 2, Section I, indicate that the 54 NSMA questionnaire respondents who reported such data held or serviced over 1.1 million second mortgages worth nearly \$20 billion at year end 1986. The average size of second mortgages outstanding was nearly \$18,000. NSMA survey respondents reported holding over 1 million second mortgages of their own and servicing an additional 92,000 second mortgages worth approximately \$1 billion in 1986.

The more comprehensive survey of NSMA members summarized in Table 1, Section VII, reported that the 107 members held or serviced 1.2 million second mortgages worth \$30 billion at year-end 1986. The discrepancy from the questionnaire data was small in terms of numbers of loans but large in terms of outstandings. Possibly some NSMA members reported their gross second mortgage balances outstanding, rather than their net balances outstanding, on their membership forms.

The questionnaire data reported in Table I, Section II, indicate that 54 NSMA members originated over half a million second mortgages in 1986. The net value of originations reported by the questionnaire respondents was \$9 billion. The average size of new loans reported by questionnaire respondents was \$16,000. The average was reduced by some respondents that made many small loans.

Many respondents made far larger loans, however. Overall, as shown in Table I, Section VII, NSMA members reported originating 675 thousand second mortgages, worth \$10.6 billion during 1986. Thus, only a relatively small amount of originations were not reported on the questionnaire.

Revolving credit continued to grow as a percentage of total second mortgage lending -- with growth particularly pronounced for home equity loans. Thirty-four questionnaire respondents reported on their home-equity loan operations. As shown in Table I, Section III, 31 of them held nearly 200,000 home equity loans worth \$4.6 billion. The average size of home equity loans, at \$22,000, was greater than the average size of second mortgages in general.

The rapid growth of total home equity loans outstanding is illustrated by the fact that reported originations over the past year, of \$3.84 billion, were not substantially smaller than the total amount outstanding. Overall, home equity loans equalled 62.3% of the total authorized lines for home equity lending. Surprisingly, the median value for line usage did not change greatly as the loans aged -- albeit, far fewer institutions reported low rates of line usage for older loans (see the Home Equity Loan Tables 24, 25, 26, and 27 for more details).

Table 2 also summarizes key data on foreclosures, chargeoffs, and delinquencies on second mortgage loans. While not all respondents provided data on foreclosures, most of the larger second mortgage holders did so. Thirty-two NSMA questionnaire respondents reported over three thousand foreclosures in 1986. The

foreclosed loans were worth nearly \$115 million in total. However, net chargeoffs in 1986, at \$60 million were only half as large as the value of loans foreclosed. The median ("typical") foreclosure rate for questionnaire respondents in 1986 only equalled 50 hundredths of 1 percent of the value of loans outstanding at year-end 1986 and 0.2% of the number of loans outstanding. The typical foreclosure rate is slightly lower than the average for all respondents (of 0.58% based on the value of loans foreclosed and 0.3% based on the number foreclosed) because some larger firms had foreclosure rates that exceeded the "typical" (median) firm's experience (see Table I, Sections IV and V).

For the 107 NSMA members in total, reported foreclosures equalled 4,823. That was equal to 0.40% of their total accounts outstanding at year-end 1986 (see Table I, Section VII).

Finally, as shown in Table I, Section V, second mortgage delinquency rates in 1986 were quite low. At year-end, only 1.48% of all second mortgage loans had been delinquent at least 60 days and the value of those loans equalled only 1.72% of all second mortgages outstanding.

The average loan size data reported in lines I.C.1 and I.C.3 of Table 2 differ from later figures in that they are averages for sums of all data reported by all respondents. All other data reported in the study, including lines I.C.2 and I.C.4, refer to high, low, or "typical" (i.e., median) values of ratios applicable to each type of institution. In those computations, averages are obtained by giving each institution's statistics equal weight,

while in lines I.C.1 and I.C.3 of Table 2 each loan, or each dollar of outstandings (as the case may be), is given equal weight. The Table 2 "average value" numbers are suspect in the sense that not all respondents reported on both the number and the dollar value of their loans outstanding and originated; however, such respondents typically had small portfolios, so any bias is relatively small and the reported averages are approximately correct.

II. Characteristics of Second Mortgage Lending in 1986

The 1987 NSMA questionnaire collected extensive descriptive information on survey respondents' loan policies and portfolio characteristics in 1986. Data were obtained on loan pricing and credit insurance policies; adjustable rate, balloon, revolving, home equity and indirect lending; the security position of second mortgage debt; and rate adjustment techniques on adjustable rate and home equity loans. In addition, the questionnaire data were used to compute statistics on second mortgage growth rates, originations and renewals, cash and total portfolio liquidation rates, and secondary market activity. Major findings are presented in Tables 3 through 27 and are summarized below.

A. Loan Terms -

NSMA members reported their high, low, average and year-end interest rates charged during 1986. They reported the rates both for their whole portfolio and for fixed rate, adjustable rate, and revolving loans considered separately. The reported data indicated that rates on new second mortgages ranged from 7.5% to 28% in 1986.

Details on loan rates are provided by type of lender as well as by type of loan in Table 11. Table 10 provides detailed descriptions of methods used to set adjustable rates, and Tables 9 and 26 provide summary data on rate adjustment procedures used for adjustable rate and home equity loans, respectively.

Table 3 summarizes details on non-rate credit terms both overall, and for different types of lenders. The data in Table 3 show that in 1986 loan to equity ratios on second mortgages ranged from 50% to 80%, with an average of 71.14% -- down somewhat from 1985. Typical loan to value ratios ranged from 65% to 78% of appraised equity at different types of lenders. Non-bank finance companies and mortgage bankers typically offered loans on the most restrictive terms, while thrifts, banks, and bank-affiliated finance companies typically offered loans with slightly higher loan to value ratios. The maximum combined loan to value ratio (CLTV) that respondents would consider ranged from 70% to 90%. The average CLTV was 81.49% overall and typical values varied from 80% to 85% for different types of lenders. In contrast to ratios of new loans to appraised equity, mortgage bankers offered the most lenient combined-loan-to-value ratios. Overall, far fewer firms allowed high CLTV ratios (of 90% or 95% or more) than in previous years.

The written maturity of new second mortgages ranged from 37 months to 198 months and averaged 143.8 months for all lenders. However, due to the use of renegotiable rate and balloon notes, the average actual maturity was substantially lower, with an average

value of 86 months and a range of 28 months to 180 months. Maturities were longest at mortgage bankers and commercial banks, and also were relatively long at large bank-affiliated finance companies. Written maturities were shortest at thrift institutions and at the smaller finance companies, while average actual maturities were shortest at large non-bank finance companies.

The average size of second mortgage loans made to businesses ranged from \$14,000 to \$3 million with an average value (per lender) of \$346,000 in the last quarter of 1986, but only 10 respondents reported such loans. The average size of loans made to households by questionnaire respondents was smaller -- with an average size ranging from \$3,400 to \$86,000 for different respondents and an average value of \$27,000. Typical household loan sizes were smallest at large non-bank finance companies and at small finance companies. They were largest at mortgage bankers, commercial banks, and thrift institutions.

Additional information collected on loan terms indicated that the vast majority of second mortgage respondents rarely made second mortgages to finance new home purchases, and that very few lenders required private mortgage insurance.

B. Growth in Second Mortgage Lending

NSMA respondents reported highly variable growth in their second mortgage loan outstandings in 1986. The typical growth rate in outstandings was 19.6%, as the typical average size of outstandings grew by 3% while the number of loans outstanding grew by 11%. The typical average size of loans originated increased

moderately (by 6.8 percent) and the number of originations typically grew by 12.5% -- both slightly faster than in the previous year. As a result, the typical growth rate of second mortgage originations was 26.6% in 1986. Typical growth rates in originations were greatest at thrift institutions, commercial banks, and large bank-affiliated finance companies. However, second mortgages grew rapidly at all other institutions -- as only small finance companies experienced slow growth in second mortgage origination rates (Table 4).

C. Second Mortgage Originations and Renewals

The overall average size of second mortgage originations in 1986 averaged \$16,100 but the average size of loan reported by the average lender was \$25,000. The lower overall average reflected the fact that some lenders made many small loans. The average loan size varied substantially among lenders. Commercial banks and the smaller finance companies typically made the smallest second mortgage loans while mortgage banks and thrift institutions typically made the largest loans. The average size of revolving credit originations was typically larger than the average size of non-revolving second mortgage originations (Table 5). Overall, the average lender made revolving credit second mortgages with an average size of nearly \$37,000.

For questionnaire respondents in general, a large portion of the number of second mortgages originated represented renewals of previous loans. As was true in earlier years, the renewal rate was highest for the smaller finance companies, where reported renewals

represented up to one-third of all loan originations. Large non-bank finance companies also reported a substantial portion of second mortgage renewals in 1986. Overall, renewals typically accounted for 16.02% of the value of second mortgage originations reported by questionnaire respondents -- an almost identical rate to that reported last year. However, the typical proportion of total loans renewed was up to 23% of the number of new loans. Thus, the proportion of new money reported for second mortgage loans was less than 84% of all money advanced via second mortgage originations in 1986.

D. Second Mortgage Liquidation Rates

Many people are interested in the speed with which second mortgage portfolios typically are liquidated. The scheduled amortization rates from second mortgages and, hence, the scheduled cash flows are considerably higher than amortization rates and cash flows from first mortgages. In addition, second mortgage liquidation rates are augmented by the fact that second mortgages are prepaid or refinanced much more frequently than first mortgages.

While it would be ideal to have information on liquidation rates according to the age and initial maturity of second mortgages, such detailed data are not available. In fact, data are not directly available on total portfolio liquidation rates. Nonetheless, liquidation rates can be computed for entire second mortgage portfolios by making use of the fact that the change in outstandings must equal originations minus liquidations or,

equivalently, total liquidations equal originations minus the change in outstandings. Additional adjustments can also be made to account for purchases and sales of second mortgages from the portfolio and for renewals which represent paper, rather than cash, transactions.

Table 6 shows the portfolio liquidation rates calculated by various techniques for different types of lenders. Because mortgage bankers vary their portfolios widely, as they pool and sell off securities, in some cases the calculated liquidation rates were extremely high.

Overall, the data presented in Table 6 indicate that second mortgage portfolios turned over at a very high rate in 1986. Typical second mortgage portfolio liquidation rates were 37.7% of average net outstandings during 1986. After adjustment for purchases and sales and renewals, typical liquidation rates were 39.7% during 1986 and typical "cash" liquidation rates were 31.5%. Cash liquidation rates varied from a low of 23.3% to a high of 40.8%. Typical values for all liquidation rate calculations were substantially higher in 1986 than in 1985. Second mortgage liquidation rates probably were enhanced by the generally falling trend in mortgage interest rates and resulting high rate of first mortgage refinancing that occurred in 1986. If the 1986 liquidation rates were to continue, second mortgage portfolios would pay down in approximately three years.

E. Secondary Market Activity

Approximately forty percent of the questionnaire respondents reported purchasing second mortgages from other originators, and about one-fourth reported that they serviced and/or sold second mortgages. On balance, questionnaire respondents purchased more second mortgages than they sold. Overall, the value of purchased mortgages equalled approximately \$1 billion, or 12% of the value of mortgages originated by questionnaire respondents in 1986 (see Table 7). NSMA respondents also sold two-thirds of a billion dollars worth of second mortgages in 1986, and at year-end serviced \$1.65 billion in second mortgages. The average size of loans sold (at \$27,000) was substantially larger than the average size of second mortgages serviced. Evidently, partial amortization or the fact that past loans sold were smaller than the average size of second mortgages sold in 1986 accounted for this result.

Overall, as in 1985, questionnaire respondents reported a very strong rate of growth in purchases of second mortgages, a somewhat lower rate of growth for sales of second mortgages, and a relatively stable level of second mortgages serviced during 1986. Evidently, a large number of respondents used net purchases of second mortgages to expand their portfolios during the year.

Finally, while little information was available on servicing fees received on second mortgages, the limited data that were available suggested that annual servicing fees typically averaged about \$200, or 1/3 percent to 1/2 percent of the value of second mortgages serviced.

F. Revolving Lending

The 1986 survey indicated that revolving second mortgage credit originations and outstandings, continued growing rapidly in 1986. At year-end 1986, revolving second mortgages held by NSMA respondents accounted for 3 1/2 billion, or roughly 20% of second mortgage credit outstanding. Reported revolving credit originations were over \$3 billion in 1986, which was nearly one-third of all reported second mortgage originations in 1986. For respondents who reported data for both 1985 and 1986, typical increases in revolving credit outstandings from 1985 to 1986 were 39% based on mortgage values and 66% based on mortgage numbers. Originations were also up sharply, with the typical lender originating 50% more second mortgages (worth 26% more) in 1986 than in 1985 (see Table 8).

In general, the average size of revolving second mortgage loans, at nearly \$23,000 for outstandings and nearly \$38,000 for originations, was substantially larger than typical second mortgages in 1986. Thus, their rapid growth during the year undoubtedly contributed to growth in the average size of second mortgages in general during 1986.

G. Adjustable Rate and Balloon Mortgages

Adjustable rate mortgages (ARM's) ceased their formerly explosive growth in 1986. The total value of ARM's reported by survey respondents was approximately the same as in 1985 and the typical lender reported negative growth in ARMs, while balloon loans declined substantially. At year-end 1986, questionnaire

respondents reported that they had \$3 1/3 billion in ARM's outstanding, and only \$0.2 billion in balloon mortgages. Consequently, NSMA members' holdings of ARM's, and balloon notes, declined as a percentage of their total second mortgage holdings (see Table 9). Possibly the rapid growth in revolving home equity lending has come at the expense of these types of loans. Also, consumer resistance to adjustable rate loans may have developed since interest rates were relatively low in 1986 and, therefore, if anything, were expected to rise. Finally, since NSMA respondents differ somewhat from year-to-year, it is possible that some big users of balloon mortgages did not report on those lending activities in 1986.

The usage of ARM's was concentrated among particular lender groups. Thrift institutions were the most active in the market, with 100% reporting ARM's, followed closely by large finance companies (at 80%), bank affiliated finance companies (with 67% using ARM's) and commercial banks (where 60% used ARM's). However, small non-bank finance companies and mortgage bankers rarely made adjustable rate second mortgages (only 20%, and 33%, respectively, of those lenders reported on their ARM policies).

Rate adjustments on second mortgage ARM's were primarily tied to short-term market rates. The prime rate was most commonly used to establish ARM rates -- particularly for large finance companies and commercial banks. The second most common type of rate base consisted of rates on Treasury securities -- usually 3-month, 1-year, or 3-year Treasury securities. Treasury security rates

were most commonly used to adjust rates charged on ARM's issued by thrift institutions and mortgage bankers. Other rate adjustment mechanisms included the 6-month and 10-year Treasury security rates, the CD rate, and the Federal Home Loan Bank Mortgage index. Rate adjustment procedures are summarized in Table 9 and presented in more detail in Table 10. Table 9 includes multiple responses for some lenders who used more than one rate adjustment procedure, while Table 10 provides detailed information on all procedures used by each respondent.

Interestingly, as was true for revolving credits, ARM's and balloon note second mortgages were substantially larger than other second mortgages outstanding in 1986. Seemingly, lenders are more concerned with obtaining protection against interest rate changes when they extend larger credits which, presumably, are amortized over relatively long periods of time and thereby expose the lender to more interest rate risk.

H. Indirect and Direct Lending

The final data recorded on Table 9 refer to second mortgage respondents' direct and indirect lending activities. Those data indicate that only 10 respondents reported buying loans originated by others (indirect lending). The maximum percentage of indirect loans acquired amounted to 32.1% of the respondents total originations. Total indirect originations reported by all respondents were \$0.7 billion, with an average size of \$25,500 -- about 10% larger than directly-originated loans.

I. Loan Rates

Table 11 summarizes the information provided by NSMA respondents on their loan rate policies for different types of loans. In addition to data on overall loan rates, it also reports on high, low, average, and year-end rates charged on fixed rate, adjustable rate, and revolving second mortgages.

The range of reported rates varied from 7.5% (on adjustable rate loans offered by one bank) to 28% (on fixed rate loans offered by a large non-bank finance company). The typical rate charged on fixed rate loans in 1986 (at 13.51%) was substantially higher than the typical rate charged either on adjustable rate second mortgages (10.71%) or on revolving credits secured with second mortgages (10.17%). Typical rates charged on fixed rate loans were highest at the smaller finance companies and at the large non-bank finance companies. They were lowest at mortgage bankers and at large bank-affiliated finance companies and were only slightly higher at commercial banks and thrift institutions. Typical rates on adjustable rate loans were highest at large non-bank finance companies and at one small bank-affiliated finance company and were lowest at commercial banks. The lowest rates on revolving loans were offered by thrift institutions, large finance company affiliates of commercial banks, and commercial banks. The highest rates on revolving loans (at 14.4%) were charged by a large non-bank finance company. Overall, a wide range of rates on second mortgages was charged by different lenders during the course of 1986, with fixed-rate loans carrying the highest rates and

revolving credit the lowest. At year-end typical rates were somewhat lower than their average values throughout the year.

J. Private Mortgage Insurance

Some second mortgage lenders use private mortgage insurance to provide additional risk coverage on their loans. Many require such insurance only if the borrower's equity position in a property, based on a combined loan to value ratio (CLTV) assessment, is below their usual standards. Others may require private mortgage insurance on all loans so they can be more easily pooled and resold.

The 1987 survey asked respondents to specify their private mortgage insurance (PMI) policies. Responses to that question are provided in Table 12. The limited number of responses suggest that private mortgage insurance is not required by most second mortgage lenders, and when it is required, it is used primarily to guarantee loans that otherwise would fail to meet the lender's owner equity standards -- i.e. for loans with CLTV ratios greater than 75%, 80%, 85%, or 90% or for loans originated in risky areas that otherwise might not qualify for credit. Interestingly, it appears that as lenders have imposed stricter CLTV standards in recent years, they have cut back on their usage of private mortgage insurance. In addition, some lenders have substituted higher loan rates for PMI and "self-insure" their loans.

III. Delinquencies, Foreclosures, and Chargeoffs on Second Mortgages

A. Delinquency Rates

In 1986, most questionnaire respondents had very favorable delinquency ratios -- albeit, they were slightly higher than in 1985. Table 13 presents data on delinquency rates reported by questionnaire respondents. It shows that typical 60 day+ delinquency rates for second mortgage lenders were 1.72% of net second mortgage loans outstanding or 1.48% of the number of second mortgages outstanding. It also shows that 60-89 day delinquency rates typically were 0.48%, based on the value of loans delinquent, and 0.52%, based on the number of loans delinquent. Thus, 60-90 day delinquency rates rose only slightly from 1985 to 1986, while total delinquency rates rose by 1/4 to 1/2 of one percent.

There was substantial variation in delinquency rates both among individual lenders and by type of lender. Maximum delinquency rates were as high as 9.28% (by value) at one mortgage banker and 9.55% (by number) at one large non-bank finance company. One other (small) finance company and one other mortgage banker had delinquency rates (by number) over 6%. However, 14 lenders reported that their total 60 day plus delinquency rates were less than 1% of outstandings. Typical delinquency rates were lowest at thrift institutions, commercial banks, large bank-affiliated finance companies and mortgage banks. Delinquency rates were highest at the smaller bank and non-bank finance companies and (based on the number, but not the value, of loans delinquent) at large non-bank finance companies.

The data on 60-89 day delinquencies are reported because they are standard for all types of lenders. Since some lenders charge off delinquent loans at 90 days, while others wait until 120 days, 180 days, or even longer before charging-off problem loans, total delinquencies can vary widely. Thus, only 60-89 day rates are directly comparable for all lenders. Typical 60-89 day delinquency rates were lowest for thrift institutions and highest for the smaller non-bank finance companies (see Table 13).

B. Foreclosure Rates and Policies

Table 14 indicates that foreclosure policies vary widely. Some firms may move to foreclose after as little as 30 to 60 days in delinquent status. However, many also note that foreclosure will not be pursued if the customer is cooperative and there are extenuating circumstances. Most lenders start foreclosure at 60 days or when the account is two full payments past due. However, some commence foreclosure when a loan is 30 days past due and others may wait 120, 180 or even 270 days before foreclosing. In general, most lenders started foreclosure proceedings at 60 or 90 days, but most also varied their policies depending upon the willingness of the customer to cooperate, the amount of equity in the home, and the stage of delinquency. Cooperative borrowers with extenuating circumstances often could forestall foreclosure, while uncooperative borrowers might find themselves faced with foreclosure proceedings in 60 days or less.

Total foreclosures reported by thirty-two questionnaire respondents for 1986 totalled 3,148, with a total value of \$115

million. This equalled approximately 1/2% of their outstanding second mortgage loan balances at year-end 1986 -- about the same ratio as in the last two years. As shown in Table 15, typical foreclosure rates as a percentage of year-earlier outstandings were lowest for thrifts and large non-bank finance companies; they were highest for some mortgage banks and non-bank finance companies with small second mortgage holdings. Since mortgage banks and the small-holder finance companies typically sold a large portion of the mortgages they originated, many of their foreclosure ratios may be overstated since their outstandings are low relative to the volume of their serviced loans. For most lender groups (large bank and non-bank finance companies and small non-bank finance companies), typical foreclosure rates were higher in 1986 than in 1985. However, at 0.53% based on numbers of loans outstanding at the previous yearend (and 1.45% of the value) they still were not high -- except for a few lenders who may have included serviced loans in their foreclosure statistics.

Additional details on foreclosures are provided in Table 16. Table 16 shows that most property foreclosed is taken by legal process. However, five companies reported that over 50% of their foreclosures were taken by deed.

Other data presented in Table 16 indicate that the average ratio of property sold to total annual foreclosures is 85.7%. This ratio often is less than 100% due to growth in the number of foreclosures and lags in the recovery and sale of foreclosed properties. However the ratio of sales to foreclosures may be over

100% for firms that liquidated properties foreclosed in previous years in addition to current foreclosures. Similarly, because of property foreclosed upon in previous years, some firms liquidated more than 100% of the value of property they foreclosed in 1986. However, the typical rate of liquidation was only 71%.

Finally, data provided in Table 16 show that the value realized from the sale of foreclosed properties varies widely. While some firms recover more than 100% of the value of the debt upon sale, a majority realized less than 100%, with a typical realization rate of 83.9%.

C. Chargeoffs

Overall, as shown in Table 17, gross chargeoffs reported by NSMA respondents in 1986, at \$72 million, were two-thirds as large as their total foreclosures. However, as is shown in Table 18, many respondents charge off expected losses on a loan as soon as foreclosure proceedings are started. Subsequent recoveries may reduce chargeoffs substantially. In 1986, however, only 1/6 of charge offs were recovered. Thus, total net charge offs, at \$61 million, equalled slightly more than half the value of foreclosures.

Table 17 shows that recoveries on gross chargeoffs ranged from zero to 58.8%, but typically equalled only 7.7% of gross chargeoffs. Net chargeoffs in 1986 ranged from 0 to 2.9% of average outstandings. Net chargeoffs had a typical value of 0.25% in 1986 -- which was the same as the 1985 charge off rate, but was substantially lower than chargeoff rates in 1984 and 1983.

Net chargeoffs typically were highest for the small non-bank finance companies (at 0.88% of average outstandings), moderate for other finance companies (at typical rates approximately equal to 1/3% or less of average outstandings), and lowest for thrift institutions, and commercial banks. Interestingly, as one would expect, chargeoffs tended to be highest at the highest rate lenders (who also made the smallest loans on most generous terms) and lowest at lower rate lenders (who also made larger loans on more restrictive terms).

IV. Profitability of Second Mortgage Lending

The ultimate objective of second mortgage lenders is to turn a profit by making sure that loan revenues exceed costs. In this section we look at second mortgage lenders' overall profits, the relative importance of different types of revenues that accrue to second mortgage lenders, the cost of funds to second mortgage lenders, and the methods by which they recognize income.

A. Income Accounting

Table 19 presents responses given to a question that asked each responding firm to describe its income-recognition accounting procedures. The responses indicate that accounting procedures vary significantly among firms. There are two major types of differences -- cash vs. accrual accounting and actuarial (or simple interest) vs. sum-of-the-years digits (rule of 78's) accounting for interest recognition.

The majority of lenders used accrual, rather than cash collection, methods to recognize earned income. However, many who did so had a provision whereby they either ceased interest accruals or reversed them when a loan became 60 to 90 days past due. In addition, many used sum-of-the-digits methods on precomputed loans and simple interest calculations on revolving loans. While actuarial or simple interest calculation procedures appear to be increasing -- particularly on revolving credit lines and other adjustable loans -- some lenders still use the Rule of 78's (or sum-of-the-years digits) method to calculate accrued interest. The Rule of 78's can generate greater income if a second mortgage is prepaid -- as is commonly done -- but regulators may declare that it generates excessive prepayment penalties on long-maturity loans. Also, the rule-of-78's is not sufficiently flexible to allow for adjustable rates.

B. Profits

Overall, as shown in Table 20, many reporting second mortgage lenders recorded substantial pretax profits in 1986. Of the eleven respondents who reported both their equity and their profits applicable to their second mortgage portfolios, seven recorded a pretax return on equity of 19% to 117%. The median pretax rate-of-return on equity committed to second mortgage lending was 29.3%; however, that was somewhat lower than the median pretax return of 34.8% earned on respondents' overall operations. Thus, in contrast, with earlier years, some of the premium profits in second mortgage lending may have disappeared in 1986 as loan rates

fell substantially and charge offs rose slightly. Nonetheless, median rates of return were still substantial.

Pretax income, recorded as a percentage of average loan balances outstanding, generated positive net income "spreads" that ranged from -0.36% of second mortgages average outstandings to more than 40% at one mortgage banker. Overall, the typical pretax rate of return on second mortgage outstandings was 3.01%, down 0.27% from 1985. The pretax rate of return was slightly lower than the 3.6% spread earned by respondents on their total portfolios, but that is to be expected because both loss rates and servicing costs tend to be higher per dollar of credit extended on (smaller) non-mortgage consumer loans, so lenders need to earn a higher profit spread on their non-mortgage loans just to break even.

C. Interest Costs and Revenue Sources

A major reason 1986 was a profitable year was that second mortgage lenders' interest costs were substantially lower than their average interest revenues on their second mortgage loan portfolios. This is shown in Table 21. Lenders' typical average interest earnings on their second mortgage loan portfolios ranged from 12.5% for commercial banks to 17.5% for small non-bank finance companies and 18.33% for thrift institutions. The typical lender's interest return averaged 15.6% of second mortgage receivables -- down only three tenths of one percent from 1985. At the same time, lenders' costs of funds typically were much lower than in 1985 -- with a typical value of 8.8% versus a 1985 level of 9.6%.

While interest earnings on second mortgage lenders' entire portfolios usually were greater than their earnings on their second mortgages, per se, their profits on their other lending were not substantially higher than their profits on second mortgages. Two reasons probably account for this: (1) lenders' operating costs (per dollar of credit outstanding) for making and servicing second mortgages are lower than the operating costs per dollar associated with smaller loans and (2) lenders may obtain significant non-interest revenues from origination fees and other revenue sources related to second mortgage loans.

Tables 22 and 23 provide more detail on revenues received by second mortgage lenders. Table 22 shows that major sources of revenues are interest, mortgage servicing fees, origination fees, and insurance and other revenues. Not all respondents provided detailed breakdowns of their non-interest revenues, however. Thus, rather than show average figures, all available responses are presented (as ratios) in Table 22. The data reported in Table 23 indicate that the typical lender obtained origination fees equal to 0.52% of the average value of their loans outstanding and service fees equal to 0.18%. Only one respondent reported both second mortgage service fees and second mortgage servicing volume, so that number (0.33%) may be unreliable. However, twenty respondents reported data on their originations and origination fees -- with origination fees ranging from 0.002% to 5.689% of mortgages originated. The median, or typical, origination fee, at 1.19% of second mortgage originations, was down 48 basis points from 1985.

Other sources of revenue reported in Tables 22 and 23 include insurance and other fees -- which typically generated revenues equal to 0.33% of outstandings and 0.51% of originations -- prepayment fees, and brokerage fees. Prepayment fees contributed the least to profits, generating typical direct revenues equal to only 0.009% of outstandings. However, if their existence discouraged early prepayments, prepayment fees may have contributed substantially more to total profits by discouraging prepayments that otherwise would have reduced interest revenues and squeeze lenders' interest rate spreads.

Some of the typical numbers reported in Tables 22 and 23 could have been downwardly biased by respondents who recorded a zero rather than an N.A. for revenues that were not broken out in separate accounts. Thus, typical values for loan servicing were recorded only for those that reported non-zero service fees.

Brokerage fee revenues were reported by only a few lenders. They accounted for a typical return of 0.74% of loans sold and 0.42% of loans originated at various lenders.

V. Home Equity Lending

A. Home Equity Loan Originations Outstandings, Line Utilization, and Growth

The NSMA Survey conducted in 1987 had a special supplement designed to obtain data on respondents' home equity lending operations (see the Appendix). The data obtained from that supplement provides useful insights into the nature and growth of the home equity loan market. That market was stimulated, of

course, by the 1986 Tax Reform Act which allowed interest deductions on mortgage loans to remain tax deductible but began to phase out interest deductions on other types of consumer loans. However, the data reported in our survey show that the home equity loan market was growing rapidly even before the 1986 Tax Reform Act was passed. That rapid growth can be ascribed to the fact that consumers like both the convenience and relatively low rates associated with revolving home equity loans.

Key data obtained in the survey are summarized in Tables 24, 25, 26, and 27. Table 24 summarizes key data on home equity loan outstandings, originations, credit lines, and growth that were provided by 31 of 34 respondents who completed the home equity portion of the questionnaire. Those data show that respondents held nearly 200,000 home equity loans worth \$4.6 billion. The number of home equity loans held by the typical respondent increased by over 70% in the past year, while their value increased by over 50%. At the same time, the number of authorized home equity credit lines typically increased by over 80% and the value of outstanding credit lines increased by over 70%. Originations grew by over 50% in value over the last year, and by 34% in number. Over the year, credit draws increased the utilization of previously originated credit lines. The high ratio of the last month's home equity originations to the last year's originations shows that home equity lending grew strongly from 1986 through the middle of 1987 when the survey was taken.

The data presented in Table 24 show that the typical lender's rate of line utilization grew from 64.2% for lines that were zero to three months old to 69.1% for credit lines over two years old. Furthermore, the lowest reported rates of line utilization grew from 24.8% for lines zero to three months old to 61.8% for lines over two years old, while the highest reported rates of line utilization also grew somewhat over time -- from 85.1% to 89.5%.

While six respondents started their home equity programs in 1986 and early 1987, most had started home equity loan programs in 1984. Also, several had started their programs as long ago as 1975 and 1977.

B. Home Equity Loan Terms

The terms of home equity lending vary greatly between lenders. While the typical lender requires a one to two percent repayment of principal each month, many specified minimum payment requirements in dollar rather than percentage terms, and many required no principal payment at all. In fact 16 of the 34 respondents required no principal payment at all as long as interest was paid -- although only four responded that a majority of their customers made interest-only payments.

The minimum and maximum sizes of home equity credit lines offered varied widely. Minimum lines varied from \$300 to \$25,000, with the minimum line offered by typical lenders of \$5,000. Maximum home equity lines varied from \$15,000 to \$1,000,000 or more. The typical lenders offered maximum credit lines of \$250,000. However, most people did not obtain the maximum line.

The average size of credit line offered by the typical lender was \$30,000 -- and ranged from \$19,720 to \$92,000 at various lenders.

The most common type of remote access provided home equity borrowers was checks. However, three firms issued credit cards that could be used at ATM's to draw on the line -- albeit, maximum ATM withdrawals were limited to \$300 to \$500 by various lenders.

Twenty-seven respondents required that consumers make minimum draws on their lines of credit ranging from \$1 to \$1,000. Typical lenders required a minimum draw of \$500. While 18 respondents did not require that an initial draw be obtained at the time the line was established, 12 required immediate usage of the line.

Finally, the data in Table 25 show that home equity loans typically convert to a term loan within five to forty years; conversion most commonly occurs at 10 years.

C. Interest Rates on Home Equity Loans

Interest rates on home equity loans most commonly are adjusted monthly, although a few have daily, weekly, quarterly, or other adjustment frequencies. Most commonly, rates are pegged to the prime rate (see Table 26). The 3-month treasury bill rate is not widely used to trigger adjustments, but other rates frequently are.

The typical margin charged over the base loan rate is 2.5%. However, the margin varies from 1% to 7% at different lenders. Only five lenders reported the use of annual interest rate caps, and eight reported the use of lifetime interest rate caps. Almost all of the lifetime caps (7 of 8) were stated in terms of absolute maximum loan rates (15.75% to 21%) that could be charged, rather

than as maximum percentage increases over the life of the loan. This differs from the usual first mortgage practice.

Special low rates were offered to new borrowers for up to 12 months (most commonly 3 months) by nine of the 34 respondents. In addition, six respondents offered lower rates for larger size loans. The minimum balance required to get the lowest rate varied from \$25,000 to \$100,000. However, three respondents also reported charging maximum rates for balances below \$25,000, \$35,000, and \$100,000, respectively.

D. Non-Rate Loan Terms

Information on some key non-rate credit terms on home equity loans is summarized in Table 27. The typical average closing fee varied from \$2 (probably the respondent meant 2%) to \$1,800, with a typical average closing fee of \$400. Fifteen respondents also required an annual membership fee which could range from \$15 to \$50 and one respondent imposed an activation fee for activating inactive accounts. However, 8 respondents were willing to waive some or all of their fees.

The home equity lenders protected their loans by requiring private mortgage insurance (in 6 cases) or by limiting maximum loan to equity ratios to 80% or below (for 25 of 31 respondents). However, 4 respondents allowed loan to equity ratios of 85%, and one each allowed ratios of 90% and 95%.

Only 2 respondents used a simplified loan qualification plan and only 4 used drive by appraisals. Twenty-six used full appraisals (9 internal and 17 external). Also, 22 used credit

reports based on standard in file data, while 8 used standard factual data and 4 used other sources before approving a home-equity loan.

VI. State Specific Data

Each respondent to the 1987 questionnaire was asked to provide separate information on the characteristics of their second mortgage lending operations in each state. While not all could or did comply, between one-third and one-half the respondents provided substantial data on their second mortgage lending in each individual state.

The statewide data provided included data on second mortgage loan outstandings, originations, delinquencies, foreclosures, and average finance rates. Key data are summarized in tables 28 and 29. Table 28 provides summary data on statewide outstandings, originations, average finance rates (APR's), delinquency rates (for 60 days and over), and foreclosures for all 50 states plus Washington D.C. Table 29 provides key ratios calculated either directly from state statistics or by comparing state statistics to similar growth and delinquency data for lenders' portfolios as a whole. The ratios are useful for analyzing such things as comparative loan rates, growth patterns, loan sizes, and delinquency rates in the different states.

Major points of interest in the state specific data relate to (1) outstanding's and origination's average size, volume, and

growth; (2) loan rates; (3) comparative delinquency rates; and 4) foreclosure experience. Each is discussed in turn.

A. Outstandings, Originations, and Growth

The data presented in Table 28 (Column 1) show that there are vast differences in the amount of loan outstandings reported in each state -- ranging from zero in Arkansas (where rate ceilings have traditionally restricted lending) to nearly \$4 billion in California. States with the largest amounts of second mortgages originated or outstanding included, in order, California, Florida, Ohio, Pennsylvania, Georgia, New York, Colorado, North Carolina, New Jersey, Texas, Virginia, Maryland, and Connecticut. Jurisdictions with the lowest amount of second mortgages reported outstanding included, in order, Arkansas, Alaska, Vermont, Washington D.C., South Dakota, Wyoming, Montana, Rhode Island, Idaho, Nebraska, Delaware, Michigan, West Virginia, New Mexico, and Iowa.

Growth rates of second mortgage lending could be approximately measured by computing the ratio of originations to outstandings. If a large portion of outstandings were acquired in the past year, then the growth rate of outstandings was assumed to be high (unless most lenders sold off their loans). States could be classified as high growth or low growth states based on both the ratio of originations to outstandings (Table 29 - Column 2) or the relative value of that ratio to the ratio of originations to outstandings for each lenders' entire portfolio (which showed growth in each state relative to each lenders' overall growth performance -- Table

29, Column 4). Based on the latter ratios, high growth states included, in order, South Dakota, Hawaii, Arizona, Massachusetts, Wyoming, Montana, Minnesota, Wisconsin, Colorado, Rhode Island, and Connecticut. These rankings may be imprecise because they can be strongly influenced by a few lenders whose operations grow very rapidly in particular states. The lowest growth rates for second mortgage lending apparently occurred in the following states: Nevada, Washington D.C., Louisiana, Oklahoma, Texas, and Oregon.

B. Loan Rates and Sizes

Most second mortgage loan rates reported by respondents were lower than those reported in 1985. In 1986, APR's averaged between 14% and 15% in most states -- one or two percentage points lower than in 1984. The highest average rate in 1986 was 17.65% in Alaska; the lowest average rates were 12.61% in Washington D.C. and 12.96% in Michigan. The regions with relatively high rates (above 16%) included, in order: Alaska, South Dakota, Wyoming, Mississippi, West Virginia, and Montana. The states with relatively low rates (below 13.6%) included, in order: Washington D.C., Michigan, Connecticut, New York, Massachusetts, Hawaii, Georgia, Florida, Arizona, and Ohio. See Table 28, Column (3) and Table 29, Column (1). Interestingly, many of the low rate states also had some of the largest amounts of second mortgages outstanding.

Variations in average loan sizes between states were much greater than variations in loan rates. The data presented in Table 29, Column (3) shows that the average size of second mortgage loans

originated in 1985 varied from \$13,066 (in Alaska) to \$62,688 (in Hawaii). Second mortgages were also quite large in Arizona (\$35,267), in Massachusetts (\$34,788), in Connecticut (\$34,650), in California (\$33,899), in Washington D.C. (\$33,183) and in New York (\$30,314). They averaged below \$16,000 in Alaska, Kansas, Alabama, South Dakota, and West Virginia.

C. Comparative Delinquency Rates

Average delinquency rates varied substantially across states, as shown in Table 28, Column 4. This was confirmed by an analysis of comparative delinquency rates in each state relative to average delinquency rates experienced by the same lenders in their overall second mortgage lending operations (shown in Table 29, Column (5)). The highest delinquency rates reported for 1986 were observed in Iowa at 5.04%. Farm problems evidently contributed to that rate of delinquency. Also, once again, Wyoming had relatively high delinquency rates, at 4.40%. Other states with relatively high delinquency rates were, in order, Utah (4.22%), South Dakota (3.78%), Florida (3.75%), Oregon (3.52%), Kentucky (3.45%), Alabama (3.33%), Oklahoma (3.21%), Louisiana (3.20%), and Washington (3.09%). The lowest average delinquency rates (below 1% for 60 days or over) were reported for Vermont (0%), Hawaii (0.31%), Michigan (0.47%), Rhode Island (0.55%), North Carolina (0.75%), West Virginia (0.76%), Massachusetts (0.85%), New York (0.89%), and Maryland (0.99%). The nation's lowest second mortgage delinquency rates tended to be concentrated where home prices were rising fastest -- in the Northeastern and Atlantic seaboard areas.

Overall, the comparative delinquency ratio data (Table 29, Column 5) indicate that the highest relative delinquency rates (at least 50% above the same lenders' experience in other states) occurred, in order, in Wyoming, Oklahoma, Oregon, Iowa, Louisiana, South Dakota, Wisconsin, Utah, and Texas. The lowest relative delinquency rates (below 40% of the same lender's overall experience) occurred, in order, in Massachusetts, Hawaii, Rhode Island, New York, Delaware, Connecticut, and North Carolina. Thus, overall, comparative delinquency rates were lowest in states with rapidly appreciating home prices and highest in states with energy or agricultural problems.

D. Foreclosure Experience

Data on foreclosures reported in each state are presented in Table 28, Column 5. Overall, the absolute number of reported foreclosures was highest in Texas (where one lender reported 715 foreclosures in spite of the fact that most second mortgage lending is either for purchase money or for home improvements), California, Florida, Colorado, Indiana, and Alabama. Most of these states (except for Texas) also reported high foreclosure levels in 1985. However, the raw numbers on foreclosures can be very misleading because the amount of loans and the number of respondents vary greatly from state to state.

VII. Conclusions

This survey reports on data obtained from the 1987 NSMA Questionnaire on Second Mortgage Lending. Data compiled from the responses of fifty-seven respondents provide useful insights into the following aspects of the second mortgage markets: loan outstandings, originations, and growth; loan terms and sizes, second mortgage liquidation rates; the use of secondary markets, revolving credit, adjustable rate and balloon notes; home equity lending and loan terms, indirect lending and the use of private mortgage insurance; second mortgage delinquency, foreclosure, and loss rates; and the profitability of second mortgage lending. In addition, the survey provides state by state data on second mortgage loan originations, outstandings, growth, loan sizes, finance rates, delinquency rates, and foreclosures.

TABLE 1: CHARACTERISTICS OF 1987 NSMA
QUESTIONNAIRE RESPONDENTS

Finance Companies, total		<u>26</u>
Affiliates of Commercial Banks		10
Holders of over \$100 million in seconds (LBF Co)	7	
Holders of under \$100 million in seconds (SBF Co)	3	
Other Finance Companies		16
Holders of over \$100 million in seconds (LF Co)	9	
Holders of under \$100 million in seconds (SF Co)	7	
Commercial Banks		<u>11</u>
Thrift Institutions (Savings Banks and Savings & Loans)		<u>7</u>
Mortgage-Bankers and Related Institutions		<u>13</u>
TOTAL *		<u>57</u>

* Includes all responses containing numeric data that were received before October 15, 1987.

TABLE 2: KEY STATISTICS ON SECOND MORTGAGES LENDING
BY NSMA QUESTIONNAIRE RESPONDENTS AND MEMBERS

I. Second Mortgages Serviced and Outstanding at Year-End, 1986

A. 1. Second Mortgages Outstanding, Net Value	\$18,647,888,290 (53)
2. Second Mortgages Serviced, Net Value	\$977,960,078 (23)
3. Total Value of Second Mortgages Serviced or Outstanding.	\$19,625,848,368 (53)
B. 1. Second Mortgages Outstanding, Number	1,038,756 (54)
2. Second Mortgages Serviced, Number.	91,613 (15)
3. Total Number of Second Mortgages Outstanding and Serviced.	1,130,369 (54)
C. 1. Average Size of Second Mortgages Outstanding	\$17,952 (53)
2. Average Size of Second Mortgages Held by Typical Holder.	\$17,784 (46)
3. Average Size of Second Mortgages Serviced.	\$17,968 (15)
10. Average Size of Second Mortgages Serviced by Typical Holder.	\$15,875 (13)

II. Second Mortgage Originations during 1986

1. Net Value* of Second Mortgages Originated	\$8,971,689,966 (54)
2. Number of Second Mortgages Originated	558,699 (52)
3. Average Size of Originations.	\$16,052 (52)
4. Average Size of Originations by Typical Survey Respondent	\$25,243 (41)

III. Home Equity Loans

1. Value of Credit Outstanding.	\$4,597,860,998 (31)
2. Number Outstanding	184,585 (28)
3. Average Size of Home Equity Loans (typical).	\$22,269 (25)
4. Value Originated in Past Year.	\$3,844,991,320 (24)
5. Number Originated in Past Year	115,373 (23)
6. Typical Ratio of Outstandings to Outstanding Lines	.62.3% (20)

TABLE 2 (continued)

IV. Foreclosures and Charge-offs in 1986

1. Number of Foreclosures Reported.	.3,148 (32)
2. Value of Foreclosures.	\$114,572,686 (30)
3. Gross Charge-offs.	\$.72,369,899 (43)
4. Net Charge-offs.	\$.60,669,639 (44)

V. Foreclosures as % of 1986 Year-End Outstandings

A. Typical Foreclosure Rates

1. Per Respondent, Based on Value.	0.50%
2. Per Respondent, Based on Number	0.16%

B. Average for all Respondents

1. Based on Value.	0.58%
2. Based on Number	0.30%

VI. Typical 60 Day and Over Delinquency Rates at Year-end 1986

1. Based on Number of Loans.	1.48%
2. Based on Value of Loans	1.72%

VII. Statistical Information for NSMA Members' 1986 Second Mortgage Lending

A. Number of Reporting Members	107
B. Number of Second Mortgages Owned or Serviced.	1,191,496
C. Net Value of Second Mortgages Owned or Serviced	\$30.0 Billion
D. Number of Second Mortgage Accounts Originated in 1986.	675,034
E. Net Value of Originations in 1986	\$10.6 Billion
F. Number of Second Mortgage Foreclosures Reported	4,823
G. Percent of Accounts Foreclosed.	0.40%

* In a few cases where "net" receivables data were unavailable, gross statistics were substituted.

TABLE 3: NON-RATE LOAN TERMS, 1986

LOAN/VALUE RATIOS								
AVERAGE RATIO OF LOANS TO APPRAISED EQUITY								
1986 Rates Charged	Thrifts	C. Banks	M. Bankers	SHF Co.	LHF Co.	SHBF Co.	LHBF Co.	All
Highest Rate	80.00	80.00	80.00	72.00	--	--	80.00	80.00
Lowest Rate	60.00	50.00	65.00	70.00	--	--	66.00	50.00
Typical Avg. Rate	<u>78.00</u>	<u>75.00</u>	<u>70.00</u>	<u>70.00</u>	<u>65.00</u>	<u>75.00</u>	<u>75.00</u>	<u>71.14*</u>
(# Responses)	(5)	(7)	(9)	(5)	(1)	(1)	(3)	(31)
*Average								
MAXIMUM COMBINED LOAN TO APPRAISED VALUE RATIO (CLTV)								
High	90.00	95.00	95.00	80.00	85.00	85.00	85.00	90.00
Low	75.00	70.00	80.00	75.00	75.00	80.00	75.00	70.00
Typical	<u>80.00</u>	<u>80.00</u>	<u>85.00</u>	<u>80.00</u>	<u>80.00</u>	<u>82.50</u>	<u>80.00</u>	<u>81.49*</u>
(#)	(6)	(8)	(10)	(5)	(5)	(2)	(5)	(41)
*Average								
MATURITY+								
AVERAGE WRITTEN MATURITY OF NEW LOANS+								
High	117.20	198.00	198.00	180.00	183.60	118.00	180.00	198.00
Low	100.00	120.00	37.00	95.60	112.00	90.00	91.00	37.00
Typical	<u>108.60</u>	<u>165.50</u>	<u>170.00</u>	<u>110.80</u>	<u>132.65</u>	<u>104.00</u>	<u>139.50</u>	<u>143.82*</u>
(#)	(2)	(10)	(8)	(4)	(4)	(2)	(6)	(36)
*Average								
AVERAGE ACTUAL MATURITY OF NEW LOANS+								
High	89.00	166.00	180.00	103.60	36.00	46.00	159.00	180.00
Low	48.00	34.00	37.00	36.00	36.00	28.00	35.00	28.00
Typical	<u>68.50</u>	<u>63.00</u>	<u>150.00</u>	<u>69.80</u>	<u>36.00</u>	<u>37.00</u>	<u>87.00</u>	<u>86.29*</u>
(#)	(2)	(4)	(9)	(2)	(2)	(2)	(5)	(26)
*Average								
AVERAGE SIZE OF 1986 ORIGINATIONS (NET ORIGINATIONS)								
High	\$34,529	\$71,676	\$39,163	\$63,000	\$28,082	\$19,421	\$27,518	\$71,676
Low	18,880	11,031	7,644	8,635	4,698	14,385	8,731	4,698
Typical	<u>26,648</u>	<u>19,547</u>	<u>28,646</u>	<u>19,988</u>	<u>20,368</u>	<u>17,332</u>	<u>22,138</u>	<u>25,243*</u>
(#)	(6)	(6)	(10)	(4)	(7)	(3)	(5)	(41)
*Average								
AVERAGE SIZE OF ORIGINATIONS TO HOUSEHOLDS (LAST QUARTER OF 1986)								
High	\$46,594	\$85,925	\$44,304	\$32,012	\$27,298	\$20,058	\$32,166	\$85,925
Low	15,490	9,415	7,718	20,137	3,419	14,529	21,042	3,419
Typical	<u>28,298</u>	<u>30,651</u>	<u>31,911</u>	<u>21,426</u>	<u>19,611</u>	<u>17,906</u>	<u>25,258</u>	<u>27,087*</u>
(#)	(5)	(4)	(10)	(3)	(5)	(3)	(4)	(34)
*Average								
AVERAGE SIZE OF ORIGINATIONS TO BUSINESS (LAST QUARTER OF 1986)								
	Thrifts	C. Banks	M. Bankers	SHF Co.	LHF Co.	SHBF Co.	LHBF Co.	All
High	--	--	\$61,370	\$76,803	\$3,010,612	--	--	\$3,010,612
Low	--	--	31,650	22,695	14,176	--	--	14,176
Typical	<u>\$28,090</u>	--	<u>36,983</u>	<u>49,749</u>	<u>142,242</u>	--	--	<u>346,160*</u>
(#)	(1)	--	(4)	(2)	(3)	--	--	(10)
*Average								

Percent of Second Mortgages with Private Mortgage Insurance

High	<u>3.31</u>	Low	0	Typical	0	Number Non-Zero	7
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Percent of Second Mortgages Used for Purchase Money

High	<u>10.11</u>	Low	0	Typical	0	Number Non-Zero	11
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+Written maturity refers to the period over which the loan is amortized. Actual maturity refers to the period over which the loan must either be refinanced, renegotiated, or amortized in full. Actual maturity can be less than written maturity if refinancing or renegotiation is required before the loan is completely amortized.

TABLE 4: GROWTH IN SECOND MORTGAGE LENDING DURING 1986

I. GROWTH IN ORIGINATIONS

A. Number of Loans Originated

	Thrifts	C. Banks	M. Bankers	SHFinCo.	LHFinCo.	SBFCo.	LBFCo.	Overall
High	+86.2%	+510.2%	+903.2%	+38.6%	+96.9%	+16.5%	+1662.9%	+1662.9%
Low	-23.9%	-22.1%	-70.5%	-22.6%	-75.2%	+10.1%	+4.1%	-70.5%
Typical	+27.6%	+15.1%	+5.8%	-2.1%	+5.8%	+13.3%	+28.6%	+12.5%
# Responses	6	4	10	5	6	2	5	38

B. Value of Loans Originated

High	+85.0%	+554.3%	+752.7%	+57.0%	+94.4%	+22.3%	+1535.2%	+1535.4%
Low	-16.9%	-18.2%	-82.2%	-26.8%	-72.6%	+20.0%	+22.2%	-82.2%
Typical	+31.1%	+31.3%	+29.0%	+4.5%	+27.3%	+21.1%	+39.4%	+26.6%
# Responses	4	4	8	5	6	2	6	35

C. Growth in Average Size of New Loans

High	+4.9%	+24.7%	+33.2%	+16.3%	+34.1%	+11.1%	+26.1%	+34.1%
Low	-1.4%	+2.7%	-39.6%	-6.5%	-19.1%	+3.0%	-36.2%	-39.6%
Typical	-0.1%	+3.9%	+12.5%	+0.7%	+7.5%	+7.0%	+14.5%	+6.8%
# Responses	4	4	8	4	6	2	5	33

II. Growth in Outstandings

A. Number of Loans Outstanding

High	+35.1%	+85.5%	+901.1%	+26.7%	+25.6%	+14.0%	+1642.0%	+1642.0%
Low	+0.5%	-30.6%	-44.5%	-10.6%	-16.9%	+11.6%	-5.4%	-44.5%
Typical	+6.7%	+8.4%	+2.0%	+6.9%	+10.8%	+12.8%	+12.8%	+11.2%
# Responses	4	6	8	6	6	2	6	38

B. Net Value of Loans Outstandings

High	+29.8%	+93.1%	+723.3%	+72.6%	+35.2%	+26.8%	+1554.6%	+1554.6%
Low	+2.9%	-45.4%	-70.7%	-25.1%	-15.3%	+19.6%	+12.9%	-70.7%
Typical	+11.2%	+25.8%	+0.7%	+3.9%	+15.2%	+23.2%	+25.4%	+19.6%
# Responses	4	5	8	6	6	2	6	37

C. Growth in Average Size of Loans Outstanding

High	+4.7%	+101.0%	+19.5%	+36.2%	+18.0%	+13.6%	+31.2%	+101.0%
Low	-3.9%	-21.3%	-47.2%	-24.9%	-4.6%	+4.9%	-5.0%	-47.2%
Typical	+3.0%	+9.0%	-9.8%	-3.3%	+3.8%	+9.3%	+13.6%	+3.3%
# Responses	4	5	8	6	6	2	6	37

TABLE 5: SECOND MORTGAGE ORIGINATIONS AND RENEWALS, 1986

Number of Originations in 1986

558,699 (52)

Net Value of Originations

\$8,971,689,966 (54)

	AVERAGE SIZE OF ALL ORIGINATIONS							ALL
	THRIFTS	C.BANKS	M.BANKERS	SHF CO.	LHF CO.	SHBF CO.	LHBF CO.	
High	\$34,529	\$71,676	\$39,163	\$63,000	\$28,082	\$19,421	\$27,518	\$71,676
Low	18,880	11,031	7,644	8,635	4,698	14,385	8,731	4,698
Typical	<u>26,648</u>	<u>19,547</u>	<u>28,646</u>	<u>19,988</u>	<u>20,368</u>	<u>17,332</u>	<u>22,138</u>	<u>25,243*</u>
(#)	(6)	(6)	(10)	(4)	(7)	(3)	(5)	(41)

*Average

AVERAGE SIZE OF REVOLVING ORIGINATIONS								
High	\$31,200	\$79,551	\$35,224	--	\$30,459	--	\$24,400	\$144,400
Low	16,178	26,071	32,013	--	3,940	--	21,562	3,940
Typical	<u>27,942</u>	<u>35,711</u>	<u>33,619</u>	<u>\$144,400</u>	<u>23,603</u>	<u>--</u>	<u>22,981</u>	<u>37,266*</u>
(#)	(4)	(7)	(2)	(1)	(4)	--	(2)	(20)

*Average

	PERCENTAGE OF ORIGINATIONS THAT WERE:		
	<u>Renewals (%)</u>	<u>Renewals (\$)</u>	<u>New Money (\$)</u>
Thrifths	--	--	<u>67.5%</u>
C. Banks	<u>5.6%, 47.5%</u>	<u>3.0%, 25.2%</u>	<u>74.8%, 97%</u>
M. Bankers	<u>0, 0, 0.3%, 3.0%</u> <u>20.1%, 25.4%</u>	<u>0.5%, 15.9%</u> <u>20.4%</u>	<u>79.6%, 84.6%, 99.5%</u> <u>100%, 100%</u>
SHFin.Co.	<u>19.8%, 32.5%</u>	<u>2.0%, 17.0%, 29.4%</u>	<u>83.0%</u>
LHFin.Co.	<u>2.2%, 38.8%, 60.7%</u>	<u>10.7%, 10.9%, 16.8%</u> <u>25.3%</u>	<u>74.7%, 83.2%, 89.1%</u> <u>89.3%</u>
SBFin.Co.	<u>47.0%, 48.8%</u>	<u>15.5%, 23.7%, 35.6%</u>	<u>64.4%, 76.3%, 84.5%</u>
LBFin.Co.	<u>3.1%, 9.8%, 27.1%</u>	<u>3.5%, 12.2%, 20.9%</u>	<u>77.8%, 79.1%, 96.5%</u>
Overall (Typical)	<u>23.0%</u>	<u>16.02%</u>	<u>83.98%</u>

TABLE 6: LIQUIDATION RATES

Type of Institution	Estimated + Liquidation Rate (unadjusted for purchases and sales) %	Estimated + Liquidation Rate (adjusted for purchases and sales) %	Estimated + Cash Liquidation Rates %
Thrifts	17.9, <u>28.6</u> , 71.1	<u>28.6</u>	--
CBanks	<u>11.8</u> , <u>32.2</u>	<u>62.7</u>	<u>56.1</u>
MBankers	29.6, <u>37.2</u> , 78.5	<u>30.4</u> , <u>78.4</u>	<u>23.3</u> , <u>76.5</u>
SHFin.Co.	39.1, <u>46.2</u> , 78.6	<u>16.0</u> , <u>46.2</u>	<u>41.2</u>
LHFin.Co.	37.7, 38.5, <u>39.7</u> , 44.6, 49.3	38.1, <u>39.7</u> , <u>41.4</u> , 49.1	30.9, <u>31.5</u> , 40.8
SBFin.Co.	<u>18.0</u> , <u>40.5</u>	<u>32.7</u> , <u>48.7</u>	<u>26.2</u> , <u>28.1</u>
LBFin.Co.	8.0, 28.2, <u>30.6</u> , 36.2, 44.7	<u>8.0</u>	--
Typical Value (Median) for 1986	<u>37.7%</u>	<u>39.7%</u>	<u>31.5%</u>
1985 Typical Values	<u>33.5%</u>	<u>33.7%</u>	<u>26.4%</u>

*Total portfolio liquidations basically are calculated as the difference in total originations and the change in portfolio outstandings over the previous year. Liquidation rates are calculated by dividing total portfolio liquidations by the level of average outstandings over the reporting period. Total liquidation rates can be adjusted for purchases and sales by subtracting the difference in loans purchased and sold from total portfolio liquidations prior to dividing by average outstandings. Cash liquidation rates adjust for purchases and sales and also reduce total liquidations by the amount of originations that represent "renewals" rather than new money.

TABLE 7: SECONDARY MORTGAGE MARKET ACTIVITY, 1986
(Number of Respondents)

	<u>Value or Number</u>	<u>Average per Respondent</u>	<u>Average Growth (%) from Previous Year</u>
I. Second Mortgages Purchased			
Net Dollar Amount	\$ 977,960,078 (23)	\$ 42,520,003	455.04% (11)
Gross Dollar Amount*	1,005,371,348 (21)	47,874,826	
Number of Loans	43,041 (21)	2,050	160.22% (10)
Average Net Loan Size per Respondent	--	\$23,837 (16)	
Net plus Gross Total Value	\$ 980,387,415 (24)	\$ 40,849,476	
II. Second Mortgages Sold			
Dollar Amount	\$ 666,288,298 (14)	\$ 47,592,021	41.26% (8)
Number of Loans	24,752 (13)	1,904	74.31% (6)
Average Loan Size per Respondent	--	\$27,157 (11)	
III. Second Mortgages Serviced			
Net Dollar Amount	\$1,646,138,535 (15)	\$109,742,569	-4.4% (11)
Number of Loans	91,613 (15)	6,108	+0.8% (12)
Average Net Loan Size per Respondent	\$17,968 (15)	\$15,875 (13)	
Net plus Gross Total Value*	\$1,654,638,535 (16)	103,414,908	
IV. Servicing Fees on Second Mortgages			
	<u>Typical</u>	<u>High</u>	<u>Low</u>
As % of Second Mortgages Serviced, net	0.33% (1)	--	--
gross	0.59% (1)	--	--
Per Second Mortgages Serviced	\$180 (2)	\$285	\$75

* Gross values are included only for those (few) firms that provided gross receivables data but no net receivables data.

TABLE 8: REVOLVING LENDING

I. Holdings of Revolving Second Mortgages Outstanding

	<u>Year-end 1986</u>	<u>Year-end 1985*</u>
Value of Loans Held	\$3,403,337,169	\$2,135,338,699
Number of Loans Held	159,663 (27)	103,579 (25)
Number of Holders	31	28
Average Size of Loan per Respondent	\$22,928	\$22,756

II. Revolving Loan Originations

Value	\$3,281,812,867	\$1,559,438,721
Number of Loans	294,190	148,204
Number of Originators	25	17
Average Size of Loan per Respondent	\$37,872 (20)	\$33,289 (16)

III. Percentage Growth in Revolving Second Mortgages, 1985 to 1986

	<u>Outstanding*</u>		<u>Originations*</u>	
	<u>#</u>	<u>\$</u>	<u>#</u>	<u>\$</u>
High	+3486. %	+3777. %	+3386. %	+4322. %
Low	-74.5%	-99.9%	-75.2%	-64.7%
Typical	+65.9%	+38.52%	+26.2%	+49.52%
Average	+231.1% (23)	+196.2% (25)	+326. % (16)	+379. % (17)

*Includes only responses of 1986 respondents who reported both year-end 1986 and 1985 levels of outstandings and originations

TABLE 9: ADJUSTABLE RATE, BALLOON, AND INDIRECT SECOND MORTGAGES

I. Adjustable Rate Second Mortgages

	<u>Volume</u>		<u>Typical Average Size</u>	<u>Typical Growth in</u>	
	<u>\$ Value</u>	<u># of Loans</u>		<u>\$ Value</u>	<u># of Loans</u>
1986	\$3,362,559,275 (25)	310,099 (23)	\$29,348 (23)	-11.4%	+1.9%
1985	\$3,585,408,947 (35)	222,860 (33)	\$29,130 (33)	60.37% (25)	18.7% (23)
1984	\$2,494,485,225 (24)	99,721 (23)	\$27,739 (22)	67.86% (14)	80.05% (15)
1983	\$1,777,041,937 (21)	55,942 (16)	\$33,843 (17)	290.88% (5)	197.01% (5)
1982	153,968,552 (6)	5,053 (6)	\$32,718 (5)	--	--

II. Types of Rate Adjustment, on Adjustable Rate Loans

	# of Affirmative Responses/Total Responses	<u>Prime Rate</u>		<u>Treasury Rates</u>						<u>FHLBB Mortgage Index</u>	<u>CD Rates</u>
		<u>WSJ</u>	<u>Other</u>	<u>3mo</u>	<u>6mo</u>	<u>1yr</u>	<u>3yr</u>	<u>5yr</u>	<u>10yr</u>		
Thrfts	5/5	1	1	1	1	1					
C. Banks	6/10	2	3	1						1	
M. Banks	4/12		1	1		3	1	1			1
SHF Co	1/5						1				
LHFin. Co.	4/5		3		1	2	1	1	1		
SHBFin. Co.	2/3		1		1						
LHBFin. Co	4/6	1	3	1		1					
Totals	26/43	4	12	4	3	6	4	2	1	1	1

III. Balloon Mortgages

	<u>Volume</u>		<u>Typical Average Size</u>	<u>Typical Growth in</u>	
	<u>\$ Value</u>	<u># of Loans</u>		<u>\$ Value</u>	<u># of Loans</u>
1986	\$216,161,288 (16)	5,884 (16)	\$27,410 (16)	-27.8 %	-10.6 %
1985	\$1,711,167,731 (27)	72,638 (27)	\$25,636 (26)	-5.8 % (24)	-3.0 % (23)
1984	\$451,162,149 (22)	14,931 (21)	\$31,022 (21)	49.47% (14)	26.74% (13)
1983	\$435,345,122 (22)	11,457 (18)	\$27,987 (19)	34.40% (7)	10.16 (5)
1982	180,445,862 (7)	3,072 (5)	\$26,423 (5)	--	--

Table 9 (continued)

IV Direct and Indirect Second Mortgages

	<u>Direct Loans</u>		<u>Indirect Loans</u>	
	<u>#</u>	<u>\$ Value</u>	<u>#</u>	<u>\$ Value</u>
Amount	494,345	\$7,578,245,147	24,626	\$697,337,336
Average Size				
High		\$78,961		\$51,195
Low		4,698		9,028
Typical		\$23,256		\$25,539
Ratio to Total # of Originations				
High		100% (28)		32.1%
Low		10.7%		0.0% (14)
Typical		100%		0.0%
Total # of responses		37		24

Table 10: Rate Indices Used to Adjust Rates on
Second Mortgages

I. Thrift Institutions

- A. Wall Street Journal Prime Rate
- B. 91 day treasury bill
- C. 6 Month T-Bill
- D. Revolving - Monthly adjustment - Prime +2
- E. Treasury Constant Maturities - One year plus 2.75

II. Commercial Banks

- A. Wall Street Journal Prime Rate
- B. Do not offer adjustable rate second mortgage loans
- C. Prime, 90-day T-bill on revolving credit only
- D. Prime +
- E. For Home equity product: Wall St. Prime
For 2nd Mortgage (Traditional): Federal Home Loans
Mortgage Index.
- F. Banks' Consumer Base Rate or Bank Prime Rate

III. Mortgage Bankers

- A. Rates are based on 3-month, 1-, 3-, and 5-year Treasury Bills and 3-month Certificates of Deposits
- B. Weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one year.
- C. Fixed percentage above bank prime lending rate.
- D. Weekly average of U.S. Treasury Securities adjusted to a constant maturity of one year.

IV. Non-Bank Finance Companies, with under \$100 Million in Second Mortgages

- A. 3-year U.S. Treasury Index

Table 10 (continued)

V. Non-Bank Finance Companies with over \$100 Million in Second Mortgages

- A. Six indices: The first index is based on the change of the six-month T-bill rate with the base being the T-bill rate at the time the loan was originated; the second index is based on the change of the weighted average of two components, namely, six-month T-bill and ten-year T-bond rate with the base being the rates at the time the loan was originated; the third index is based on the change of the prime rate with the base being the prime rate at the time the loan was originated; the fourth index is based on the change of the one-year T-bond rate with the base being the T-bond rate at the time the loan was originated; the fifth index is based on the change of the three-year T-bond rate with the base being the T-bond rate at the time the loan was originated; and the sixth index is based on the five-year T-bond rate with the base being the T-bond rate at the time the loan was originated.
- B. Prime Rate
- C. Treasury securities adjusted to a constant maturity of one year
- D. Prime Rate

VI Bank-Affiliated Finance Companies with under \$100 Million in Second Mortgages

- A. Monthly average prime rate as published by the Federal Reserve Plus 2 1/2%
- B. 6 month treasury bill rate as last auction in June and December

VII. Bank-Affiliated Finance Companies with over \$100 Million in Second Mortgages

- A. Three month Treasury Bill
- B. 6 month average of the monthly average yields of 3 year treasury securities

Bank of America reference rate

Wall Street Journal prime rate
- C. Prime rate
- D. Bank prime rate

TABLE 11: INTEREST RATES CHARGED ON DIFFERENT TYPES OF SECOND MORTGAGE LOANS

A. ON DECEMBER 31, 1986,

1. Overall

	Thrifts	C.Banks	M.Bankers	SHFin.Co.	LEFIN.Co.	SFin.Co.	LBFin.Co.	Overall
High	12.75	11.00	16.90	19.50	18.11	17.99	18.50	19.50
Low	10.17	7.50	10.20	10.00	11.50	15.09	8.75	7.50
Typical	<u>10.17</u>	<u>8.99</u>	<u>11.04</u>	<u>14.90</u>	<u>14.65</u>	<u>16.54</u>	<u>12.93</u>	<u>13.12*</u>
#	3	3	8	4	6	2	4	31

*Average

2. On Fixed Rate Loans

High	12.75	14.00	16.00	19.50	18.11	--	18.50	19.50
Low	10.86	10.25	10.90	11.80	12.20	--	10.95	10.25
Typical	<u>12.15</u>	<u>12.00</u>	<u>11.55</u>	<u>18.00</u>	<u>15.39</u>	<u>17.99</u>	<u>11.50</u>	<u>13.51*</u>
#	6	7	9	3	6	1	3	35

*Average

3. On Adjustable Rate Loans

High	12.25	9.75	11.24	--	14.40	--	10.00	14.40
Low	9.50	7.50	10.48	--	12.10	--	8.75	7.50
Typical	<u>11.25</u>	<u>8.25</u>	<u>10.86</u>	<u>10.50</u>	<u>13.25</u>	<u>13.99</u>	<u>9.38</u>	<u>10.71*</u>
#	3	3	2	1	2	1	2	14

*Average

4. On Revolving Loans

High	11.50	10.00	10.00	--	14.40	--	9.50	14.40
Low	9.49	9.13	9.82	--	9.50	--	9.50	9.13
Typical	<u>9.50</u>	<u>9.75</u>	<u>10.00</u>	<u>10.00</u>	<u>11.75</u>	<u>10.00</u>	<u>9.50</u>	<u>10.17*</u>
#	5	7	3	1	4	1	2	23

*Average

B. Range of Rates Charged Over Last Year.

Fixed, High	14.05	18.00	24.00	24.00	28.00	22.00	13.50	28.00
Fixed, Low	10.86	10.00	9.35	11.80	10.00	11.50	10.95	9.35
Adj.R, High	12.75	10.25	14.99	13.25	21.75	14.99	12.50	21.75
Adj.R, Low	9.00	7.50	10.24	8.50	9.60	13.99	8.75	7.50
Rev., High	12.00	11.75	12.77	12.75	21.00	12.00	9.50	21.00
Rev., Low	9.50	8.50	9.68	9.75	9.50	10.00	8.50	8.50

Table 12: Private Mortgage Insurance Policies of
Second Mortgage Lenders, 1986

I. Thrift Institutions

- A. Only required on fixed rate 15 years amortizing if loan to value ratio exceeds 75%
- B. none

II. Commercial Banks

- A. Do not offer or require PMI

III. Mortgage Bankers

- A. The company only requires PMI insurance on loans originated in Oklahoma due to the state's troubled economy.
- B. 1/2% rate increase in lieu of PMI for loans that exceed 85% CLTV
- C. LTV over 80%, but not greater than 85%
- D. When total mortgage encumbrance to value exceeds 80% on owner occupied property, we can go to 90% with PMI. When total mortgage encumbrance to value exceeds 70% on non-owner occupied property, we can go to 80% with PMI.
- E. Standard United Guaranty Insurance policy which insures creditor against credit loss on a loan-by-loan basis.

IV. Non-Bank Finance Companies with under \$100 Million in Second Mortgages

- A. The Company does not lend above 70% loan to value and, accordingly, it does not require private mortgage insurance.

V. Non-Bank Finance Companies with over \$100 Million in Second Mortgages

- A. Private mortgage insurance is no longer required due to self insurance.
- B. Required only for LTV over 90% on workout situations and refinance of balloon payments

Table 12 (continued)

VI. Bank-Affiliated Finance Companies with under \$100 Million in
Second Mortgages

- A. These loans were acquired through a merger. No new loans of this type.
- B. we do not require PMI
- C. None

TABLE 13: SECOND MORTGAGE DELINQUENCY RATES, YEAR-END 1986

Total Delinquencies over 60 Days (%)

	<u>Based on Value Delinquent</u>	<u>Based on Number Delinquent</u>
Thriffs	0.382, 0.442, <u>0.445</u> , <u>0.582</u> , 0.617, 0.801	0.273, 0.275, <u>0.465</u> , <u>0.579</u> , 0.580, 0.719
C. Banks	0.257, 0.811, <u>1.749</u> , <u>2.047</u> , 2.625, 5.120	0.243, 0.277, <u>1.193</u> , <u>1.370</u> , 1.617, 4.367
M. Bankers	0.010, 0.158, 0.605, 1.681, 1.809, <u>2.069</u> , 2.212, 3.118, 7.931, 7.990, 9.279	0.039, 0.191, 0.676, 1.566, 1.575, <u>1.714</u> , 2.067, 2.802, 3.949, 7.990, 9.278
SHFin.Co.	2.147, 2.498, <u>2.736</u> , 4.072, 6.708	1.818, 2.168, <u>2.192</u> , 3.833, 6.767
LHFin.Co.	1.127, 1.422, <u>1.679</u> , 2.187, 8.724	1.103, 1.325, <u>2.256</u> , 3.005, 9.545
SBFin.Co.	0.491, <u>2.117</u> , 4.206	0.489, <u>2.595</u> , 4.247
LBFin.Co.	0.230, 0.458, <u>0.712</u> , <u>0.998</u> , 1.681, 2.245	0.174, 0.391, <u>1.208</u> , <u>1.237</u> , 1.393, 3.420
Typical (overall)	<u>1.715</u>	<u>1.480</u>

Delinquencies from 60-89 Days (%)

	<u>Based on Value Delinquent</u>	<u>Based on Number Delinquent</u>
Thriffs	0.004, 0.110, <u>0.146</u> , <u>0.305</u> , 0.331, 0.445	0.045, 0.065, <u>0.131</u> , <u>0.233</u> , 0.400, 0.579
C. Banks	0.466, 0.490, <u>0.592</u> , 1.255, 1.618	0.065, 0.261, <u>0.505</u> , 1.078, 1.665
M. Bankers	0.010, 0.056, 0.214, 0.372, 0.379, <u>0.559</u> , 0.675, 1.091, 1.332, 1.506, 9.279	0.039, 0.083, 0.211, 0.364, <u>0.374</u> , <u>0.571</u> , 0.575, 0.632, 0.750, 1.332, 9.278
SHFin.Co.	0.380, <u>0.634</u> , <u>1.887</u> , 2.369	0.0, <u>0.648</u> , <u>1.091</u> , 2.337
LHFin.Co.	0.394, 0.446, <u>0.607</u> , 0.621, 4.297	0.426, 0.440, <u>0.712</u> , 0.909, 4.267
SBFin.Co.	0.192, <u>0.863</u> , 1.407	0.143, <u>0.901</u> , 1.270
LBFin.Co.	0.027, 0.052, <u>0.291</u> , <u>0.386</u> , 0.506 0.515	0.022, 0.130, <u>0.418</u> , <u>0.537</u> , 0.729, 0.820
Typical (overall)	<u>0.478</u>	<u>0.521</u>

Table 14: Foreclosure Policies of Second
Mortgage Lenders, 1986

I. Thrift Institutions

- A. Right to cure (20 days) is sent on the 40th day of delinquency. File is prepared and given to management by the 75th day of delinquency. File is sent to the Attorneys by the 90th day of delinquency.
- B. Once an account is 60 days delinquent and no arrangement has been made.
- C. Any account 3 months past due without arrangements, gets final demand letter, if no response, account goes to attorney.
- D. Last resort in effort to recover our investment and is used when there is absolutely no other way to liquidate the amount.

II. Commercial Banks

- A. Loan 90 Days Past Due
- B. Zero accrual at 90 day; file notice of default
- C. Each Delinquent Account is Reviewed to determine the customer's intentions, past payment history and the status of senior lien holders. If equity exists, it is considered for foreclosure.
- D. Varies from affiliate to affiliate
- E. 120 days non-accrual. If property is well secured and in collection status.
- F. At 120 days of delinquency, however, the process begins at 90 days with a demand letter
- G. Primarily, loans that become 90 days past due are reviewed for foreclosure subject to authorization by appropriate management personnel.

Table 14 (continued)

II. Mortgage Bankers

- A. Foreclosure proceedings are initiated when the loan is 60 or more days delinquent at the request of the beneficiary
- B. Foreclosure proceedings should begin before an account reaches 90 days contractually delinquent. Extenuating circumstances, however, may postpone the start of a foreclosure up to 180 days.
- C. Taking possession of a mortgage property through legal proceedings
- D. To efficiently liquidate assets through legal processes in order to minimize losses on loans in default.
- E. With exceptions noted, 60-90 day accounts [excluding BKRUPTS] are forwarded to attorneys for collection and/or Foreclosure
- F. After 30th day past due account is given to attorney to resolve.
- G. Foreclosure proceedings will start in the event of serious delinquencies, depending on the circumstances. (i.e. outright refusal to pay, bankruptcy, etc.
- H. All properties are written down to estimated current realizable value at time of foreclosure.
- I. When security is in jeopardy due to senior lien being foreclosed or account becomes 90 days or over.
- J. When an account becomes more than 60 days contractually delinquent, foreclosure is initiated unless extenuating circumstances warrant a delay in action. The decision is made by Home Office.
- K. The collectability of loans are reviewed as they approach 60 days delinquent. Foreclosure action is started if satisfactory arrangements for payment are not made and received within days.

IV. Non-Bank Finance Companies with under \$100 Million in Second Mortgages

- A. When all prudent collection efforts have been exhausted without positive results, the foreclosure process is begun in those situations where the borrower has the means but not the inclination to pay the debt.

Table 14 (continued)

- B. Account is normally sent to attorney the day after the second becomes due.
- C. Determined on loan by loan basis.
- D. When a loan is judged to be seriously delinquent and all efforts to date to effect a settlement, workout or payment have proven ineffective, a foreclosure should be recommended.

V. Non-Bank Finance Companies with over \$100 Million in Second Mortgages

- A. Foreclosure proceedings start at the end of the two-month delinquency period.
- B. Decision made to foreclose when account is 60 days contractually past due
- C. On loans 3 months in default, a current appraisal is obtained. If a decision is made to foreclose, local counsel is consulted regarding procedures and legal requirements and any junior lienholder is notified.
- D. Initiated when first mortgage initiates foreclosure proceedings, or when it is determined that consumer's ability to continue loan payments is in jeopardy - usually 60-90 days delinquent.

VI. Bank-Affiliated Finance Companies with under \$100 Million in Second Mortgages

- A. Individual basis-after collection and other reasonable efforts unsuccessful, foreclosure proceedings initiated. Upon acquiring title unpaid balance transferred to foreclosed properties account, but only to the extent that balance does not exceed net realizable value of property. Remaining balance, if any, is charged off.
- B. Foreclosure is determined by individual reviews of delinquent accounts and only foreclosed based on an estimate of potential recovery.

VII. Bank-Affiliated Finance Companies with over \$100 Million in Second Mortgages

- A. Foreclosure proceedings are begun on 1 30-day status account.

Table 14 (continued)

- B. Process started after 2 payments past due
- C. When it is deemed that payments will not be made and account will not be cured.
- D. Foreclosure is regarded as the least desirable solution, and every effort is made to reach an amicable solution. However, if all attempts prove futile, foreclosure is considered. After review and field recommendations, Home Office approval is necessary to commence foreclosure action.
- E. After nine months of no-pay the account is reviewed and considered for foreclosure

TABLE 15: SECOND MORTGAGE FORECLOSURE RATES, 1985 AND 1986

	\$ Value	Number
Total Foreclosures	\$114,572,686	3,148
Maximum	28,538,186	453
Minimum	0	0
Average/Respondent	3,819,090	98.4
Number of Respondents	30	32

Foreclosure Rates (% of Year Earlier Outstandings)			
	Typical Value in 1985	Typical Value in 1986	Range of Values in 1986 (Typical Values are underlined)
Thrifts	0.02% (4)	.07 % (2) .065% (2)	% of Loan Number % of Loan Value <u>.052, .090</u> <u>.030, .100</u>
C. Banks	0.07% (10)	.49 % (2) 1.11 % (2)	% of Loan Number % of Loan Value <u>0, .972</u> <u>0, 2.221</u>
M. Bankers	1.67% (6)	2.15 % (6) 4.20 % (5)	% of Loan Number % of Loan Value 0.043, 0.356, <u>0.748</u> , <u>3.567</u> , 4.326, 6.886 0.651, 0.915, <u>4.197</u> , 6.267, 10.530
SHFin.Co.	1.46% (5)	3.78 % (4) 7.39 % (4)	% of Loan Number % of Loan Value 0, <u>1.360</u> , <u>6.209</u> , 10.97 0, <u>3.236</u> , <u>11.543</u> , 20.854
LHFin.Co.	0.32% (3)	0.26 % (1) 0.34 % (1)	% of Loan Number % of Loan Value <u>0.262</u> <u>0.342</u>
SBFin.Co.	0.43% (3)	0.75 % (2) 1.13 % (2)	% of Loan Number % of Loan Value <u>0.395</u> , <u>1.107</u> <u>0.638</u> , <u>1.621</u>
LBFin.Co.	0.42% (4)	0.35 % (4) 0.94 % (5)	% of Loan Number % of Loan Value 0.107, <u>0.166</u> , <u>0.531</u> , 2.273 0.192, <u>0.614</u> , <u>1.274</u> , 3.113
Overall Typical	0.36% (29)	0.53 % (21) 1.45 % (20)	% of Loan Number % of Loan Value <u>0.531% (21)</u> <u>1.448% (20)</u>

TABLE 16: DETAILS ON FORECLOSURES, 1986

Foreclosed Property

	<u>Taken by Deed (%)</u>	<u>Taken by Legal Process (%)</u>
Thriffs	<u>0</u>	<u>100.100</u>
C. Banks	<u>99.3</u>	<u>0.66.100</u>
M. Bankers	0,0,1.68, <u>2.23</u> ,5.17,12.79	0,87.2,94.8, <u>96.8</u> ,98.3,100,100
SHFin.Co.	<u>0.35.8</u>	<u>64.2.100</u>
LHFin.Co.	<u>82.2</u>	<u>17.8</u>
SBFIN.Co.	0, <u>58.8</u> ,58.8	41.8, <u>47.1</u> ,100
LBFin.Co.	12.2, <u>33.3</u> ,100	0, <u>66.7</u> ,87.8

Percentage Disposition of Foreclosed Property

	Foreclosed Property Sold <u>(% of number foreclosed)</u>	Foreclosed Property Liquidated (% -- <u>\$ Value ratio)</u>	Dollars Realized on Sale/Value of Property <u>Liquidated %</u>
Thriffs	<u>100.136.4</u>	244.1	<u>103.5</u>
C. Banks	<u>65.1.100</u>	177.6	<u>19.7.111.5</u>
M. Bankers	0,4.1,64.5, <u>74.4</u> <u>83.8</u> ,85.7,107.1	0,15.9, <u>51.7</u> ,74.1 116.98	99.6, <u>99.7</u> ,314.5
SHFin.Co.	82.3, <u>86.9</u> ,90.6	<u>83.6.94.5</u>	<u>91.5.105.6</u>
LHFin.Co.	<u>86.7.92.7</u>	<u>85.4.134.0</u>	<u>100.100</u>
SBFin.Co.	86.0, <u>94.1</u> ,111.8	<u>84.2.93.3</u>	<u>79.4.94.1</u>
LBFin.Co.	0, <u>63.2.85.7</u> ,88.9	0,0,79.3	<u>100</u>
Typical	<u>85.7%</u> (23)	<u>83.9%</u> (16)	<u>100%</u> (13)

TABLE 17: SECOND MORTGAGE CHARGE-OFFS IN 1986

Total Charge-offs and Loss Allowances

	<u>\$ Value</u>	<u>Number of Responses</u>
Gross Losses	\$ 72,369,899	43/37 non-zero
Recoveries	12,299,164	42/28 non-zero
Net Losses	\$ 60,669,639	44/36 non-zero
Allowance for Losses	\$250,293,112	40/40 non-zero

	<u>Net Charge-offs as Percent of Average Outstandings</u>	<u>Year-Earlier Outstandings</u>	<u>Recoveries as percent of Net Chargeoffs</u>
Thrifts	0, <u>0.001</u> , 0.885	0, <u>0.001</u> , 0.905	0, <u>5.5</u> , 6.1
C. Banks	0, <u>0.052</u> , 0.573	0, 0.037, <u>0.059</u> , 0.618	0, <u>26.3</u> , <u>31.2</u> , 31.6
M. Bankers	0, 0.061, <u>0.131</u> , <u>0.197</u> , 0.550, 0.580	0, 0.067, <u>0.126</u> , <u>0.141</u> , 0.656, 1.838	0, 1.3, 3.5, <u>3.5</u> , 7.7, 16.6, 34.7
SHFin.Co.	0, <u>0.884</u> , 2.856	0, <u>0.755</u> , 3.944	0, 0
LHFin.Co.	0.166, 0.306, <u>0.385</u> , 0.815, 1.011	0.195, 0.310, <u>0.319</u> , 0.752, 1.057	7.7, 9.4, <u>11.1</u> , <u>12.8</u> , 28.4, 43.4
SBFin.Co.	0.308, <u>0.312</u> , 0.587	<u>0.343</u> , <u>0.660</u>	4.9, <u>12.4</u> , 35.3
LBFin.Co.	0.074, 0.112, <u>0.122</u> , 0.175, 0.815	0.115, 0.143, <u>0.197</u> , <u>0.511</u> , 0.604, 0.836	0, 1.9, <u>5.8</u> , <u>19.7</u> , 28.4, 58.8
Overall (Typical)	<u>0.252</u>	<u>0.310</u>	<u>7.7</u>

Table 18: Charge-Off Policies of Second
Mortgage Lenders, 1986

I. Thrift Institutions

- A. Right to cure (20 days) is sent on the 40th day of delinquency. File is prepared and given to management by the 75th day of delinquency. If estimated loss meets or exceeds loan balance, management normally dictates that balance be charged off.
- B. Once an account is 90 days past due it is written up for charge off. It is charged off at 120 days past due.
- C. Any account over 120 days past due that is uncollectable is charged-off.
- D. C/O is 120 days or 5 monthly payments except where we can clearly demonstrate that repayment would occur regardless of delinquency status.
- E. After 5th month of no activity.

II. Commercial Banks

- A. Simple Interest Loans - 5 Months in Default
Discounted Loans - 7 Months in Default
- B. No charge offs
- C. Charged off after ninety (90) days delinquent
- D. 120 days
- E. 120 days non-accrual. If property is well secured and in collection status
- F. If a deficiency balance exists after foreclosure, it will be charged off
- G. An account will be charged-off once the probability of loss has been established. More specifically, in the finance company subsidiary, all real estate possessions not sold within 90 days will be charged-off at the rate of 5% per month and any deficiency on property sold will be charged-off immediately.

Table 18 (continued)

III. Mortgage Bankers

- A. An account positively identified as a loss because of bankruptcy discharge, death (no estate), court ruling, lower market value than receivable, etc., regardless of contractual delinquency.
- B. Loans are charged off when all other means of collection have been exhausted.
- C. At time of movement from loan to REO loss is taken (based on excess of our investment over the anticipated net realizable value in property) against loan loss reserve. Write downs are taken at any time additional loss is anticipated.
- D. Any account deemed uncollectable after all efforts have failed, no payment for six consecutive months.
- E. Loans secured by real estate which have not paid the equivalent of one regular installment amount in the prior three months are reviewed monthly. The balance or portion thereof deemed uncollectable is written off by the end of a calendar quarter.
- F. Small delinquent balances where foreclosure is too costly or too little equity
- G. Any account which is 180 days (6 months) contractually past due must be in foreclosure or charged to the allowance for doubtful accounts.
- H. A charge-off is recognized when the liquidation value of the secured property is less than the sum of our loan, any superior debt and incurred expenses.

IV. Non-Bank Finance Companies with under \$100 Million in Second Mortgages

- A. Based on loan by loan review of all receivables, provision for credit losses are charged to income in amounts sufficient to maintain the allowance at a level adequate to cover anticipated losses resulting from future liquidation of existing portfolio.
- B. Would do when property is sold and does not bring investment value.

Table 18 (continued)

- C. Once all collection efforts for a loan have been exhausted and a loss is apparent, the loan will be recommended for charge-off.

V. Non-Bank Finance Companies with over \$100 Million in Second Mortgages

- A. When an active bad debt account is more than seven months overdue, both contractually and by recency, it is written down to the anticipated net realizable value. It may be reviewed periodically for further reduction for a period not to exceed 24 months, or until it is sold.
- B. No payment for 180 days or sooner if clearly a loss.
- C. Charged to loss when uncollectable, no collateral value or 12 months contractually past due.
- D. Network
- Any account six months or more contractually past due.
 - Repossessions written down to fair market value when they are set up as repossessions.
 - Any account on which all repossessed collateral has been sold and proceeds of sale were not sufficient to close the account.
 - Any non real estate repossession account which is still open 12 months. (90 days in Maryland, Ohio, Pennsylvania)
 - Any real estate repossession account on which title has been held for 18 months.

Bankruptcies:

1. Chapter 1 - Earlier of final adjudication or the month after account becomes six months contractually past due.
2. Chapter 13 - Upon final approval of plan by Court if final plan not approved, use Chapter 7 guidelines.

Differences in Banks

- Any account five months contractually past due must be charged off before the next payment due date.

Table 18 (continued)

- Real estate repossession: Upon acquiring title to property, difference between appraised value and balance owed on account is charged off. If sale price decreased to move a property, a further charge off is processed to reflect new sale price.
- Non real estate repossession: charged off after 90 days.

E. After sale of foreclosed property

VI. Bank-Affiliated Finance Company with under \$100 Million in Second Mortgages

- A. Individual basis, but charge off occurs not later than the time of foreclosure
- B. Each month, installment notes receivable are charged off when the aggregate payment in the last six months is less than one full original contractual payment or when, in the opinion of management, they are uncollectable or are deemed to be uneconomical to administer.
- C. Each delinquent account is reviewed monthly, any account 180 days contractually delinquent is a loss unless foreclosure has been started. Foreclosures and acquired properties are reviewed monthly and any significant potential loss is charged off.

VII. Bank-Affiliated Finance Companies with under \$100 Million in Second Mortgages

- A. If the appraised value of the property is less than the combined balance of the first and second mortgages, any difference is charged-off. Also, if our company allows the first mortgage holder to foreclose, any second mortgage balance we hold is written off.
- B. Deficiency balance after property liquidated
- C. When an account is deemed uncollectable, i.e. Bankrupt, skip, etc.
- D. The Company's charge-off policy is based on contractual delinquency. Generally, accounts are charged-off in the month that they become six months contractually delinquent.
- E. After nine months no-pay the account is reviewed and considered for charge-off

Table 19: Income Recognition Policies of
Second Mortgage Lenders, 1986

I. Thrift Institutions

- A. Accrual
- B. Simple Interest on full Portfolio since 9/83 except for Add-On (Rule 78's) on liquidated Portfolio of 5 Million Net as of 12/31/86

II. Commercial Banks

- A. Actuarial & Simple Interest
- B. as paid
- C. Accrual
- D. Cash

III. Mortgage Banks and Brokers

- A. Commission
- B. Interest Income is recognized on the accrual basis of accounting. Loans secured by other than a 1-4 family dwelling, that become 90 days past due are put on non-accrual status (no income accrued).
- C. Accrual
- D. Accrual
- E. fee income
- F. Interest on Loan Receivables. Income from precomputed real estate loans receivable is earned on the actuarial basis; income from interest-bearing receivables is earned as collected.
- G. GAAP
- H. Accrual
- I. Accrual
- J. In accordance with GAAP

Table 19 (continued)

IV. Non-Bank Finance Companies with under \$100 Million in Second Mortgages

- A. Gain on sale
- B. Cash
- C. Income recognized on collection basis
- D. Accrual

V. Non-Bank Finance Companies with over \$100 Million in Second Mortgages

- A. Primarily simple interest at the contract rate with points earned by the actuarial method.
- B. Precomputed = rule of 78ths.
Per Diem = as collected and accrued
- C. as earned
- D. Accrual
- E. Interest Bearing/Rule of 78's

VI. Bank-Affiliated Finance Companies with over \$100 Million in Second Mortgages

- A. Accrual basis of accounting - actuarial method applied to deferred finance income including origination fees
- B. Accrual
- C. Accrual

VII. Bank-Affiliated Finance Companies with over \$100 Million in Second Mortgages

- A. Accrual
- B. Cash
- C. Accrued
- D. Effective yield (actuarial) method
- E. sum of years bigger, or accrual, accrual on interest bearing loans

TABLE 20: PROFITABILITY OF SECOND MORTGAGE LENDERS, 1986

I. Pretax Income as a Percent of Average Equity

Type of Institution	For Second Mortgages Only	For Full Portfolio
Thriffs	--	--
C. Banks	--	<u>312.65%</u>
M. Bankers	11.76%, <u>32.84%</u> , 116.98%	12.38%, 25.32%, <u>32.84%</u> , <u>62.18%</u> , 154.22%, 381.53%
SHFin. Co.	<u>2.10%</u> , <u>62.62%</u>	2.10%, 7.82%, <u>31.18%</u> , 62.62%, 101.96%
LHFin. Co.	<u>18.86%</u> , <u>40.82%</u>	-52.0%, 7.60%, 16.88%, <u>18.86%</u> , <u>29.34%</u> , 34.76%, 37.20%, 47.11%
SBF Co.	<u>29.34%</u> , <u>64.70%</u>	29.34%, <u>34.76%</u> , <u>37.20%</u> , 51.41%
LBF Co.	-8.89%, <u>10.60%</u>	-8.89%, 10.60%, <u>37.54%</u> , 51.41%, 90.92%
Typical, overall	<u>29.34%</u> (11)	<u>34.76%</u> (29)

II. Pretax Income as Percent of Average Outstandings

Thriffs	6.39%	--
C. Banks	10.0%	0.27%, 68.33%
M. Bankers	2.25%, 2.58%, 42.26%	1.56%, 2.58%, 3.56%, 9.20%, 10.38%
SHFin. Co.	0.19%, 8.35%	1.30%, 8.35%, 9.43%, 34.41%
LHFin. Co.	2.06%, 3.40%	-1.50%, 1.94%, 3.37%, 3.63%, 3.67%
SBFin. Co.	3.01%, 5.94%	3.01%, 5.67%, 6.91%
LBFin. Co.	-0.36%, 1.91%	-0.36%, 1.89%, 6.44%, 15.18%
Typical, overall	<u>3.01%</u> (13)	<u>3.63%</u> (23)

TABLE 21: INTEREST INCOME AND EXPENSE OF SECOND MORTGAGE LENDERS, 1986

Type of Institution	Gross Interest Revenues <u>Second Mortgage Receivables</u>	Percent of Average <u>Outstandings</u>
Thrifts	<u>13.70%, 22.96%</u>	<u>17.70%</u>
C. Banks	11.26%, <u>12.53%</u> , 18.11%	<u>12.11%</u>
M. Bankers	12.81%, <u>12.86%</u> , <u>13.69%</u> , 24.21%	8.24%, 11.64%, <u>12.46%</u> , 12.81%, 16.31%
SHFin. Co.	12.04%, <u>17.53%</u> , 31.06%	9.20%, 12.04%, <u>17.53%</u> , 24.46%, 31.06%
LHFin. Co.	14.70%, 15.31%, <u>16.04%</u> , <u>17.40%</u> 17.95%, 18.11	13.12%, 13.60%, 17.31%, <u>18.01%</u> , <u>18.03%</u> , 18.64%, 22.67%, 25.65%
SBF Co.	<u>14.70%</u> , <u>17.40%</u>	19.57%, <u>20.08%</u> , 22.35%
LBF Co.	10.01%, <u>15.56%</u> , 18.13%	10.01%, 15.71%, <u>17.94%</u> , 18.74%, 39.65%
Overall, (typical)	<u>15.56%</u> (23)	<u>17.62%</u> (28)
	Gross Interest Expenses <u>Second Mortgage Receivables</u>	Percent of Borrowings to Carry <u>Total Portfolio</u>
Thrifts	--	--
C. Banks	<u>1.49%</u>	7.31%
M. Bankers	8.71%, <u>9.60%</u> , 35.85%	4.93%, 8.71%, <u>9.60%</u> , 9.81%, 11.52%
SHFin. Co.	7.95%, <u>13.82%</u> , <u>15.47%</u> , 18.36%	7.95%, 8.50%, <u>13.82%</u> , 15.47%, 18.36%
LHFin. Co.	7.78%, 8.19%, <u>8.46%</u> , 8.83%, 11.53%	8.01%, 8.19%, 8.23%, <u>8.46%</u> , 8.62%, 8.83%, 11.53%
SBFin. Co.	<u>10.03%</u> , <u>11.15%</u>	8.70%, <u>10.03%</u> , 11.15%
LBFin. Co.	6.78%, <u>7.81%</u> , 8.80%	6.78%, 6.78%, <u>7.81%</u> , <u>8.80%</u> , 8.92%, 9.02%
Overall, (typical)	<u>8.82%</u> (18)	<u>8.71%</u> (27)

TABLE 22: SECOND MORTGAGE LENDERS' REVENUES AS PERCENT OF AVERAGE OUTSTANDINGS

	<u>Interest Revenues</u>	<u>Service Fees</u>	<u>Origination Fees</u>
Thrifts	<u>13.70,22.96</u>	<u>0.0,013</u>	0.051,0.296,0.517
C. Banks	11.26, <u>12.53</u> ,18.11	<u>0.002,0.219</u>	<u>0.124,0.160</u>
M. Bankers	12.81, <u>12.86,13.69</u> , 24.21	0,0,2.117	0.008, <u>0.254,0.807</u> ,9.954
SHFin. Co.	12.04, <u>17.53</u> ,31.06	0,0,0	0.762, <u>3.93</u> ,10.33
LHFin. Co.	14.70,15.31, <u>16.04</u> , <u>17.40</u> ,17.95,18.11	0,0,0.135	0.142, <u>0.442</u> ,0.791
SBFin. Co.	<u>15.71,16.72</u>	<u>0.1,276</u>	<u>0.514</u>
LBFin. Co.	10.01, <u>15.56</u> ,18.13	<u>0.0</u>	<u>0.584,3.989</u>
Overall (typical)	<u>15.56%</u> (22)	<u>0.177%</u> (6 non-zero)	<u>0.516%</u> (18)
	<u>Brokerage Fee</u>	<u>Prepayment Penalties</u>	<u>Insurance and other Non-fee Revenue</u>
Thrifts	<u>0</u>	<u>0.0</u>	<u>0</u>
C. Banks	<u>0.032,0.085</u>	<u>0.017</u>	--
M. Bankers	0.007, <u>0.119</u> ,42.052	0, <u>0.0</u> ,0.012	<u>0.057,10.321</u>
SHFin. Co.	0, <u>0.261</u> ,2.111	0, <u>0.239</u> ,0.409	0, <u>0.3</u> ,47
LHFin. Co.	<u>0.0,123</u>	0,0.005, <u>0.042</u> , 0.320,0.591	<u>0.013,0.269</u>
SBFin. Co.	<u>0.0,132</u>	--	<u>0.394</u>
LBFin. Co.	<u>0.0,099</u>	0.003, <u>0.151</u> ,0.276	0.262,0.532, <u>0.673</u> , 0.719,1.040
Overall (typical)	<u>0.085%</u> (15)	<u>0.009%</u> (18)	<u>0.332%</u> (14)

TABLE 23: SECOND MORTGAGE LENDERS' NON-INTEREST REVENUES, 1986

Non-interest Revenues as a Percentage of Originations
(Distribution of Responses)

Type of Lender	Origination Fees	Brokerage Fees	Insurance and Other Revenues
Thrifts	0.156%, <u>1.157%</u> , 2.490%	0	--
C. Banks	<u>0.225%</u> , <u>0.306%</u>	<u>0.032%</u>	--
M. Bankers	0.002%, 0.731%, <u>1.820%</u> , 2.870%, 4.707%	<u>0.0.012%</u>	0.130%, 0.281%, 7.585%
SHFin. Co.	1.615%, <u>4.528%</u> , 5.689%	<u>0.099%</u> , <u>0.409%</u>	1.426%
LHFin. Co.	0.002%, <u>0.210%</u> , <u>0.927%</u> , 1.362%	0.005%, <u>0.042%</u> , <u>0.320%</u> , 0.591%	0.040%, 0.555%
SBF Co.	<u>1.222%</u>	--	0.936%
LBF Co.	<u>1.03%</u> , <u>1.701%</u>	0.003%, <u>0.151%</u> , 0.276%	0.273%, 0.462%, 0.939%
Overall (typical)	<u>1.190%</u> (20)	<u>0.42%</u> (13)	<u>0.509%</u> (10)

Non-interest Revenues as a Percentage of Serviced Loans and Loans Sold
(Distribution of Responses)

	Service Fees/ <u>Net Value of Loans Serviced</u>	Brokerage Fees/ <u>Loans Sold</u>	Origination Fees/ <u>Loans Sold</u>
Thrifts	--	--	--
C. Banks	--	--	--
M. Bankers	0.333%	0.742%	\$75, \$286
SHFin. Co.	--	0.441%	--
LHFin. Co.	--	--	--
SBFin. Co.	--	--	--
LBFin. Co.	--	4.287%	--
Overall (typical)	<u>0.33%</u> (1)	<u>0.742%</u> (3)	<u>\$181</u> (2)

TABLE 24: Home Equity Loans: Outstandings, Originations, and Usage

I. Outstandings

	Amount	Growth (or Value) in Most Recent Year			
		High	Low	Typical (#)	Average
A. Outstanding					
Balances #	184,585 (28)	3486%	-18.2%	<u>+71.2%</u> (18)	293%
Value	\$4,597,860,998 (31)	3777%	-20.6%	<u>+51.7%</u> (19)	286%
Average Size		\$71,279	\$4,138	<u>\$22.269</u> (25)	\$24,431
B. Total Authorized Lines					
#	115,373 (23)	3486%	-18.2%	<u>+81.4%</u> (13)	360%
Value	\$3,844,991,320 (24)	2880%	-18.2%	<u>+74.6%</u> (13)	323%
Average Size		\$117,215	\$17,170	<u>\$32.900</u> (20)	\$39,000

II. A. Originations, Last

Fiscal year, #	293,643 (24)	3386%	-68.5%	<u>+34.3%</u> (16)	272%
Value	\$3,158,427,113 (26)	4322%	-60.8%	<u>+52.5%</u> (16)	334%
Average Size		\$148,133	\$3,940	<u>\$30.316</u> (21)	\$37,448

Ratio to Last Years Originations

B. Originations, Last					
Month, #	47,290 (26)	63.4%	2.4%	<u>22.6%</u> (22)	41.0%
Value	\$992,889,872 (27)	197.6%	1.7%	<u>18.4%</u> (22)	44.6%
Average Size		\$82,142	\$4,922	<u>\$30.700</u> (23)	\$32,440

III. Total Line Usage Percentages

	High	Low	Typical (#)
Lines 0-3 months old	85.1%	24.8%	<u>64.2%</u> (11)
Lines 3-6 months old	79.6%	26.1%	<u>66.0%</u> (11)
Lines 6-9 months old	77.6%	32.9%	<u>62.9%</u> (10)
Lines 9-12 months old	77.6%	52.9%	<u>64.2%</u> (11)
Lines 1-2 years old	88.9%	52.1%	<u>64.2%</u> (8)
Lines over 2 years old	89.5%	61.8%	<u>69.1%</u> (4)
Overall Lines	96.0%	37.3%	<u>62.3%</u> (20)

IV. Date Home Equity Lending Programs Were Started: Distribution of Responses

1975	1	1983	6
1977	2	1984	11
1980	2	1985	5
1981	1	1986	4
1982	1	1987	2

TABLE 25: Home Equity Loans: Loan Draw and Payment Conditions

Distribution of Responses

I.	A. Minimum Required Payment of Principal	0(8), 1%, 1.25%, 1.5%, 1.75%, 1.8%, 2%(4), \$15, \$20, \$50(4), \$60, \$100, \$135, \$140, \$1,500 Typical, <u>1% to 2%</u>
	B. May Customers pay interest only?	Yes <u>16</u> No <u>18</u>
	C. What amount of customers pay interest only?	1%, 1 1/2%, 20%, 33%, 39%, 85%, 90%(2), 100%
II.	A. Minimum Size of Credit Line	\$300, \$1,000, \$5,000(15), \$5,400, \$10,000(12), \$15,000(3), \$25,000(1) Typical <u>\$5,000</u>
	B. Maximum Size of Credit Line	\$15,000, \$100,000(5), \$150,000(2), \$200,000(3), \$225,000, \$250,000(8), \$400,000, \$500,000(2), \$800,000, \$1,000,000, unlimited Typical <u>\$250,000</u>
	C. Average Size of Credit Line	\$19,720, \$21,000, \$22,000, \$23,926, \$25,000(2), \$25,535, \$26,145, \$26,718, \$27,300, \$28,000, \$29,441, \$30,000(3), \$31,000(2), \$35,527, \$36,006, \$36,700, \$37,000, \$37,755, \$42,000, \$50,000, \$55,000, \$63,000, \$80,000, \$92,000 Typical <u>\$30,000</u>
III.	A. Type of Access to Loans	
	1. Checks 26	
	2. Credit Card --	
	3. Other 7	
	B. If a Credit Card is used, can it be used at ATM's?	Yes <u>3</u> No <u>11</u>
	C. Maximum withdrawals at ATM's Daily	\$300, \$500
	D. Minimum Possible Draw on Line of Credit	\$1, \$100(5), \$250(4), \$300(3), <u>\$500(12)</u> , \$1,000(2)
	E. Is there a required initial draw on the line of credit?	Yes <u>12</u> No <u>18</u>
	F. Period of time before loan must be paid off or converts to a term loan, if any?	5 years(6), <u>10 years(6)</u> , 12 years, 15 years, 20 years, 40 years(2)

TABLE 26: Interest Rate Determination for Home Equity Loans

I. Frequency of Rate Adjustment

Daily 4 Weekly 1 Monthly 17 Quarterly 8 Other 3

II. Interest Rate Base

Prime 15 3 mo. T-bill 2 Other 16

III. Usual margin over interest rate base?

1% (2), 1.5% (2), 1.75%, 2% (9), 2.5% (41), 3% (4), 3.75%, 3.9%, 4% (3), 4.17%, 4.5%, 7%

IV. A. Size of Annual Interest Rate Cap, if any

+2%, +4%, 18%, 21%, 24%

B. Size of Interest Rate Cap over Life of Loan

+5%, 15.75%, 18% (4), 20.9%, 21%

C. Do you offer a lower introductory rate?

Yes 2 No 25

D. Length of Time for introductory rate, if offered.

2 mo., 3 mo. (31), 6 mo. (2), 12 mo.

V. A. Do you offer lower rates for larger amounts borrowed?

Yes 6 No 27

B. If yes, what are your scheduled rates?

1. lowest rates: 3%, 14%
2. minimum balance to get lowest rate: \$25,000, \$50,000, \$100,000
3. highest rate: 18%
4. balance below which highest rate is applied: \$25,000, \$35,000, \$100,000

TABLE 27: Home Equity Loans: Non-rate Terms

- I. A. Average cost of closing fees (out of pocket)
- \$2, \$55, \$125, \$206, \$240, \$250, \$270, \$300(3), \$350(2), \$400(2), \$425, \$500(5), \$600(2), \$1,500(2), \$1,800
- B. Is there an annual membership fee?
1. Yes 15 No 14
2. Amounts: \$15, \$36, \$50(2)
- C. Are some or all of these fees waived?
- Yes 8 No 22
- D. Is there an activation fee for inactive accounts?
- Yes 1 No 31
- II. Do you require mortgage insurance?
- Yes 6 No 28
- III. What is the maximum loan to value ratio you permit?
- 75%(9) 85%(4)
- 80%(16) 90%(1)
- 95%(1)
- IV. A. Is a simplified qualifying (no income verification) program used?
- Yes 2 No. 31
- B. Type of credit report used
1. In File 22
2. Standard factual data 8
3. Other 4
- C. Type of Appraisal
1. Drive by 4
2. Appreciated (comparable only) 1
3. Full appraisal (internal) 9
4. Full appraisal (external) 17
5. Other 2

TABLE 28: KEY STATE DATA, 1986
(NUMBER OF RESPONDENTS FOR EACH ITEM GIVEN IN PARENTHESES)

State	Total Reported Outstandings	Total Reported Originations	Average APR	Average Delinquencies	Number of Foreclosures
1. Alabama	\$337,175,568 (15)	\$132,790,880 (13)	14.44% (11)	3.33% (11)	57 (4)
2. Alaska	--	156,791 (1)	17.65% (1)	--	--
3. Arizona	312,738,567 (13)	132,382,969 (12)	13.55% (12)	2.42% (11)	81 (8)
4. Arkansas	--	--	--	--	--
5. California	3,968,233,990 (19)	1,810,919,236 (18)	13.73% (16)	2.39% (15)	398 (12)
6. Colorado	562,877,035 (18)	270,656,726 (16)	14.05% (15)	2.77% (15)	149 (11)
7. Connecticut	430,472,038 (15)	1,127,385,861 (15)	13.19% (14)	2.52% (9)	0 (8)
8. Delaware	67,408,209 (8)	39,309,562 (7)	14.10% (5)	1.39% (6)	0 (3)
9. Florida	964,345,037 (22)	387,534,263 (20)	13.55% (18)	3.75% (17)	176 (11)
10. Georgia	623,852,666 (24)	297,050,904 (22)	13.50% (20)	2.27% (19)	30 (13)
11. Hawaii	110,666,000 (3)	64,390,414 (3)	13.35% (2)	0.31% (3)	1 (2)
12. Idaho	54,422,000 (5)	22,202,305 (5)	15.45% (4)	2.28% (5)	33 (2)
13. Illinois	392,232,488 (14)	203,540,988 (13)	14.06% (12)	1.64% (10)	36 (6)
14. Indiana	349,076,565 (16)	167,227,750 (13)	13.83% (11)	1.52% (11)	61 (7)
15. Iowa	86,237,562 (7)	27,977,347 (6)	15.57% (6)	5.04% (5)	8 (4)
16. Kansas	131,145,755 (9)	54,909,119 (8)	15.41% (7)	1.62% (6)	27 (3)
17. Kentucky	111,053,535 (15)	50,623,092 (14)	14.84% (11)	3.45% (13)	3 (6)
18. Louisiana	230,951,782 (18)	64,151,974 (15)	14.54% (12)	3.20% (13)	37 (6)
19. Maine	--	--	--	--	--
20. Maryland	436,732,638 (18)	202,503,044 (17)	13.76% (15)	0.99% (14)	4 (9)
21. Massachusetts	318,866,775 (15)	233,295,348 (14)	13.23% (12)	0.85% (12)	0 (7)
22. Michigan	69,313,793 (4)	40,570,352 (3)	12.96% (2)	0.47% (3)	3 (2)
23. Minnesota	213,698,784 (13)	101,532,423 (12)	13.67% (10)	1.18% (11)	28 (8)
24. Mississippi	98,586,638 (13)	32,953,580 (11)	16.14% (8)	2.17% (9)	10 (4)
25. Missouri	174,246,206 (12)	81,061,026 (11)	15.16% (9)	1.39% (8)	6 (4)
26. Montana	17,232,000 (3)	7,488,492 (4)	16.01% (3)	1.64% (4)	19 (2)
27. Nebraska	60,152,896 (7)	42,483,353 (6)	14.90% (5)	1.67% (6)	7 (3)

TABLE 28 (continued)

<u>State</u>	<u>Total Reported Outstandings</u>	<u>Total Reported Originations</u>	<u>Average APR</u>	<u>Average 60 Day & Over Delinquencies</u>	<u>Number of Foreclosures</u>
28. Nevada	111,409,131 (9)	26,743,029 (7)	13.92% (6)	2.34% (8)	29 (6)
29. New Hampshire	111,680,932 (10)	44,242,366 (10)	13.80% (9)	1.34% (8)	1 (4)
30. New Jersey	474,543,045 (13)	297,959,495 (12)	14.21% (10)	1.75% (10)	7 (6)
31. New Mexico	79,933,283 (11)	31,185,448 (10)	14.77% (8)	1.52% (10)	26 (6)
32. New York	599,615,410 (15)	369,538,077 (15)	13.22 (13)	0.89% (12)	14 (8)
33. North Carolina	519,961,848 919)	226,990,927 (17)	13.85% (13)	0.76% (15)	14 (9)
34. North Dakota	--	--	--	--	--
35. Ohio	779,876,887 (14)	556,311,598 (14)	13.58% (11)	2.00% (10)	62 (7)
36. Oklahoma	251,804,848 914)	75,278,112 (13)	14.67% (11)	3.21% (11)	130 (6)
37. Oregon	112,189,589 (10)	33,587,417 (8)	15.00% (6)	3.52 (6)	46 (4)
38. Pennsylvania	715,424,558 (16)	393,006,101 (15)	14.25% (13)	1.94% (13)	47 (7)
39. Rhode Island	53,844,430 (8)	44,875,500 (9)	14.13% (8)	0.55% (7)	0 (2)
40. South Carolina	302,676,361 (18)	125,731,619 (16)	14.66% (12)	2.40% (13)	44 (7)
41. South Dakota	5,015,000 (2)	3,778,172 (3)	17.05% (3)	3.78% (2)	1 (1)
42. Tennessee	343,236,758 (18)	124,104,670 (16)	14.52% (13)	1.56% (12)	20 (7)
43. Texas	449,117,543 (11)	109,461,851 (8)	14.11% (6)	2.54% (7)	742 (5)
44. Utah	127,382,774 (14)	56,439,754 (12)	13.84% (10)	4.22% (11)	25 (6)
45. Vermont	2,709,000 (1)	1,708,000 (1)	15.80% (1)	0	--
46. Virginia	445,746,400 (19)	216,578,461 (17)	14.19% (14)	1.46% (14)	32 (11)
47. Washington	211,001,394 (7)	98,447,918 (6)	15.49% (5)	3.09% (6)	66 (3)
48. West Virginia	75,324,166 (7)	26,659,193 (6)	16.14% (4)	0.76% (5)	19 (2)
49. Wisconsin	144,266,865 (9)	67,099,137 (8)	14.18% (8)	2.18% (7)	8 (3)
50. Wyoming	16,327,000 (2)	5,187,700 (3)	16.20% (3)	4.40% (1)	9 (1)
51. Washington, D.C.	4,292,000 (1)	1,002,000 (1)	12.61% (1)	2.96% (1)	5 (1)

TABLE 29: KEY RATIOS APPLICABLE TO LENDERS IN EACH STATE
(NUMBER OF RESPONDENTS IN PARENTHESES)

<u>State</u>	<u>State APR/ Nat'l APR</u>	<u>Originations/ Outstandings</u>	<u>Average Size of Originations</u>	<u>(State Orig/Outs)/ (Nat'l Orig/Outs)</u>	<u>(State Del. %)/ (Nat'l Del. %)</u>
1. Alabama	102.6% (10)	44.3% (13)	\$ 15,326 (12)	105.7% (12)	145.2% (9)
2. Alaska	152.2% (1)	--	\$ 13,066 (1)	--	--
3. Arizona	103.5% (11)	57.2% (11)	\$ 35,267 (11)	191.5% (12)	43.5% (10)
4. Arkansas	--	--	--	--	--
5. California	98.4% (14)	55.0% (18)	\$ 33,899 (17)	107.2% (15)	53.6% (14)
6. Colorado	104.1% (13)	54.4% (15)	\$ 24,797 (15)	162.7% (16)	95.0% (14)
7. Connecticut	102.5% (11)	103.1% (13)	\$ 34,650 (14)	155.3% (13)	34.6% (10)
8. Delaware	98.4% (5)	53.9% (7)	\$ 18,770 (7)	140.6% (6)	34.3% (4)
9. Florida	101.5% (17)	121.3% (20)	\$ 21,978 (19)	108.5% (19)	100.4% (17)
10. Georgia	104.3% (16)	61.0% (20)	\$ 23,932 (21)	115.2% (20)	49.5% (19)
11. Hawaii	97.3% (2)	60.5% (3)	\$ 62,688 (4)	215.5% (3)	15.6% (2)
12. Idaho	101.0% (4)	45.3% (4)	\$ 18,209 (5)	138.4% (4)	89.2% (3)
13. Illinois	100.7% (10)	60.54% (13)	\$ 21,279 (12)	114.4% (13)	71.4% (11)
14. Indiana	100.2 (10)	55.3% (13)	\$ 16,396 (12)	124.7% (13)	95.1% (11)
15. Iowa	105.3% (6)	48.7% (6)	\$ 17,956 (6)	134.3% (6)	172.5% (4)
16. Kansas	103.5% (7)	52.4% (8)	\$ 14,687 (8)	138.6% (7)	62.7% (5)
17. Kentucky	107.4% (10)	53.3% (14)	\$ 16,470 (13)	113.6% (13)	54.4% (11)
18. Louisiana	107.0% (11)	72.7% (15)	\$ 19,621 (14)	81.3% (15)	167.9% (12)
19. Maine	--	--	--	--	--
20. Maryland	100.4% (14)	56.6% (17)	\$ 25,550 (16)	110.7% (16)	47.2% (14)
21. Massachusetts	89.8% (11)	85.4% (12)	\$ 34,788 (13)	175.3% (12)	9.21% (9)
22. Michigan	113.9% (2)	71.3% (3)	\$ 19,422 (3)	134.2% (3)	48.6% (2)
23. Minnesota	89.2% (9)	62.5% (11)	\$ 25,016 (11)	166.7% (11)	54.2% (10)
24. Mississippi	108.7% (8)	42.7% (11)	\$ 17,309 (10)	113.1% (10)	100.6% (8)
25. Missouri	104.3% (8)	51.4% (11)	\$ 16,470 (9)	135.1% (10)	84.2% (7)
26. Montana	106.2% (3)	39.6% (3)	\$ 19,292 (4)	167.3% (3)	102.8% (2)

TABLE 29 (continued)

<u>State</u>	<u>State APR/ Nat'l APR</u>	<u>Originations/ Outstandings</u>	<u>Average Size of Originations</u>	<u>(State Orig/Outs) / (Nat'l Orig/Outs)</u>	<u>(State Del. %) / (Nat'l Del. %)</u>
27. Nebraska	109.0% (4)	64.6% (5)	\$ 17,563 (6)	108.3% (6)	42.5% (5)
28. Nevada	86.7% (6)	28.2% (8)	\$ 27,764 (7)	62.7% (8)	73.9% (7)
29. New Hampshire	102.1% (8)	62.0% (9)	\$ 27,100 (9)	143.9% (9)	72.5% (7)
30. New Jersey	97.5% (7)	65.4% (12)	\$ 24,967 (11)	145.9% (11)	72.7% (10)
31. New Mexico	105.6% (8)	47.1% (9)	\$ 23,587 (9)	114.9% (9)	64.5% (8)
32. New York	100.2% (11)	64.8% (14)	\$ 30,314 (14)	135.6% (13)	32.9% (12)
33. North Carolina	94.4% (13)	69.0% (16)	\$ 21,465 (16)	118.4% (15)	39.5% (13)
34. North Dakota	--	--	--	--	--
35. Ohio	101.4% (10)	58.9% (13)	\$ 16,331 (13)	117.6% (12)	115.6% (9)
36. Oklahoma	106.1% (10)	35.3% (13)	\$ 17,020 912)	86.9% (12)	207.2% (9)
37. Oregon	99.1% (6)	33.5% (8)	\$ 20,266 (7)	93.4% (8)	190.0% (6)
38. Pennsylvania	99.7% (11)	54.2% (15)	\$ 18,986 (14)	121.2% (14)	59.1% (12)
39. Rhode Island	99.9% (7)	68.9% (8)	\$ 22,002 (8)	156.5% (8)	27.0% (6)
40. South Carolina	105.1% (12)	47.7% (16)	\$ 17,915 (15)	103.9% (15)	101.2% (12)
41. South Dakota	119.8% (3)	64.1% (2)	\$ 15,474 (3)	321.5% (2)	160.3% (2)
42. Tennessee	101.9% (12)	50.6% (16)	\$ 17,859 (15)	107.8% (15)	57.3% (12)
43. Texas	101.0% (6)	39.7% (8)	\$ 22,365 (8)	87.3% (7)	150.3% (6)
44. Utah	100.1% (9)	50.5% (11)	\$ 24,850 (11)	126.0% (11)	154.9% (10)
45. Vermont	100.6% (1)	63.0% (1)	\$ 20, 578 (1)	121.1% (1)	--
46. Virginia	101.9% (13)	80.65 (17)	\$ 22,700 (16)	109.0% (16)	62.5% (15)
47. Washington	102.7% (5)	45.7% (6)	\$ 18,939 (6)	144.6% (6)	77.9% (5)
48. West Virginia	110.7% (4)	48.6% (6)	\$ 15,654 (6)	129.3% (6)	57.9% (4)
49. Wisconsin	99.8% (7)	58.0% (8)	\$ 17,113 (7)	164.4% (8)	159.4% (6)
50. Wyoming	113.7% (3)	48.4% (2)	\$ 22,156 93)	171.0% (2)	372.8% (1)
51. Washington, DC	100.9% (1)	49.7% 92)	\$ 33,183 (2)	72.8% (2)	54.6% (2)

APPENDIX

The 1987 NSMA Questionnaire

NATIONAL SECOND MORTGAGE ASSOCIATION

EXECUTIVE DIRECTOR - Suite 308, 1166 DeKalb Pike, Center Square,
Pennsylvania 19422/(215) 277-3740

Toll Free Number Outside Pennsylvania 1-800-342-1121

FINANCIAL QUESTIONNAIRE

IDENTIFYING # OF FIRM _____
(Assigned by NSMA)

TYPE OF FIRM: (Check One)

- ☐ 1. Finance Company
- ☐ 2. Mortgage Banker
- ☐ 3. Commercial Bank
- ☐ 4. Savings & Loan Association
- ☐ 5. Mutual Savings Bank
- ☐ 6. Other (Specify)

TYPE OF AFFILIATION (IF ANY): (Check One)

- ☐ 1. None
- ☐ 2. Subsidiary of bank or
bank holding company
- ☐ 3. Affiliate of Savings &
Loan or mutual savings
bank
- ☐ 4. Subsidiary of nonde-
pository institution
(Specify type of
institution)

☐ 5. Other (Specify)

INSTRUCTIONS:

1. In answering the questionnaire, show whole dollar figures. (Do not round to the nearest thousand. If your data are already in 000's; of dollars, please add three 0's where applicable.)
2. See definitions at the end of the questionnaire.
3. Unless stated otherwise, report dollar amounts on Net Basis.

The following information is for the fiscal year ended:
(Check one)

_____ December 31, 1986 or _____
(Specify date closest to
year-end for which data
are available)

MOST RECENT FISCAL		PREVIOUS YEAR	
YEAR-END		FULL	
SECOND	FULL	SECOND	FULL
MORTGAGE	PORTFOLIO	MORTGAGE	PORTFOLIO

I. VOLUME AND OUTSTANDING
DATA INDICATORS:

1. Loans receivable outstanding and owned at end of fiscal year:

A. Number of loans outstanding:	_____	_____	_____
B. Gross balances outstanding (includes precomputed finance charges plus principal balances outstanding):	_____	_____	_____
C. Net balances outstanding (includes principal balance only):	_____	_____	_____
D. Average loans outstanding (check one):	_____	_____	_____
___ (1) Daily			
___ (2) At beginning and end of month			
___ (3) At beginning and end of quarter			
___ (4) At beginning and end of year			
___ (5) Other (specify)			
E. Average gross receivable outstanding:*	_____	_____	_____
F. Average net receivable outstanding:*	_____	_____	_____
G. Number of revolving loans outstanding:	_____	_____	_____
H. Balances of revolving loans outstanding:	_____	_____	_____

*Average outstandings equals the average amount of receivables due over the course of the year, not the average loan size.

MOST RECENT FISCAL YEAR		PREVIOUS YEAR	
<u>SECOND MORTGAGES ONLY</u>		<u>SECOND MORTGAGES ONLY</u>	
NUMBER	DOLLAR	NUMBER	DOLLAR

2. Volume of Second Mortgage Loans Originated

During the Fiscal Year:

A. Gross balance originated: _____

B. Net balance originated: _____

C. Balance renewed. (Check if gross _____
or net _____.)

D. New money: _____

3. Volume of Real Estate Secured Revolving Lending Originated:

4. Second Mortgages Receivable Outstanding That Were Serviced But Not Owned At End Of Fiscal Year:

A. Gross balance outstanding: _____

B. Net balance outstanding: _____

5. Volume of Second Mortgages Purchased During Fiscal Year:

A. Gross balance outstanding: _____

B. Net balance outstanding: _____

	PREVIOUS YEAR	
	NUMBER	DOLLAR
	SECOND MORTGAGES ONLY	

	MOST RECENT FISCAL YEAR	
	NUMBER	DOLLAR
	SECOND MORTGAGES ONLY	

6. Volume of Second Mortgage Loans Sold To
Other Than Affiliated Company During The
Fiscal Year: _____

7. A. Volume of reported second mortgage loans
where your mortgage has first position: _____

B. Volume of reported second mortgage loans
where your mortgage has second position: _____

C. Volume of reported second mortgage loans
where your mortgage has third position: _____

8. A. Volume of second mortgage loans where the
mortgage has an adjustable rate feature: _____

B. What type of index is used to adjust the rate: _____

C. Volume of second mortgage loans where the
mortgage is a term (balloon) note, when the
term is greater than one year, and any loans
that have a call provision: _____

D. Volume of second mortgage loans where the
mortgage is a fully amortized fixed rate
Loan: _____

MOST RECENT FISCAL YEAR
SECOND MORTGAGES ONLY

NUMBER DOLLAR

Volume Of Direct And Indirect Second
Mortgage Loans Originated:

9. Direct Second Mortgage loan net balances
originated by your company or its
subsidiaries.

10. Indirect Second Mortgage loan net
balances originated by unrelated
companies and purchased by your
company.

MOST RECENT FISCAL YEAR
SECOND MORTGAGE FULL
ONLY PORTFOLIO

II. SOURCES OF FUNDS AND PROFITABILITY:

11. Average borrowings during fiscal year:
(Based on average debt outstanding daily ____; at beginning or
end of each month ____; quarter ____; or year _____. (check one.)

12. Average stockholders' equity during fiscal year:
(Based on average equity outstanding daily ____; or at beginning or
end of each month ____; quarter ____; or year _____. (Check one.)

13. Interest expense for the fiscal year:

14. Gross Revenue For the Fiscal Year: Total from all Sources
(Should equal the sum of A through G below.)

- A. What type of income recognition method is used?

- B. Gross interest income:

- C. Mortgage servicing fee income:

- D. Origination fee on loans acquired for own account:

- E. Brokerage fee on loans acquired other fee income:

- F. Prepayment penalties:

- G. Insurance and other non-fee revenue:

15. Income Before Income Taxes For Fiscal Year:
(Should equal gross revenues in line 14 minus all applicable
expense items.)

SECOND MORTGAGE ONLY			
HIGH	AVERAGE	LOW	Typical Rate December 31
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

17. Range of APR On Loans Originated During
The Year:

- A. On fixed rate loans
- B. On adjustable rate loans
- C. On revolving loans

MOST RECENT FISCAL YEAR
SECOND MORTGAGES
UNPAID BALANCES
(INCLUDING LOANS
& FORECLOSURES,
BUT NOT OWNED)

NUMBER

III. CONTRACTUAL DELINQUENCIES & CHARGE-OFFS:

18. Contractual Analysis: (Based on terms in effect at statement date and applicable to precompute, add-on, discount, and interest-bearing accounts.)

A. All current accounts plus 1-59 days:

B. Accounts past due: 60-89 days:

C. Accounts past due: 90-179 days:

D. Accounts past due: 180 days or more:

E. Total accounts delinquent over 60 days: (Should equal B+C+D)

F. Total accounts: (Both current and delinquent - should equal A+E)

MOST RECENT FISCAL YEAR
SECOND MORTGAGES

UNPAID BALANCES
(INCLUDING LOANS
& FORECLOSURES,
BUT NOT OWNED)

NUMBER

- 19. A. Do reported delinquent balance include real estate owned after foreclosure?
 Yes No.
 B. Provide number and amount of real estate owned after foreclosure:
 C. Are real estate owned after foreclosures included in outstandings?
 Yes No.
- 20. Do reported delinquent balances include unearned finance charges?
 Yes No.
 If so, provide dollar amount:
- 21. Do delinquent balances apply only to fully owned loans or to serviced loans also?
 Includes own receivables only.
 Includes serviced loans.

MOST RECENT FISCAL YEAR
SECOND MORTGAGES

UNPAID BALANCE
ON LOANS

NUMBER

22. Foreclosures:

A. Define foreclosure policy:

B. Total foreclosures consummated during the
fiscal year including property taken by deed:*

(1) Property taken by deed:	_____	_____
(2) Property taken through legal process:	_____	_____

C. Foreclosed properties liquidated:

_____	_____
_____	_____

D. Property sold (number):

_____	_____
_____	_____

E. Property sold (dollar amount realized from sale):

_____	_____
_____	_____

* If total foreclosures do not equal the sum of B (1) and B (2), please explain here:

MOST RECENT FISCAL YEAR
SECOND MORTGAGES

AMOUNT

23. Charge-offs:

A. Define charge-off policy:

B. Gross charge-offs during fiscal year:

C. Recoveries during fiscal year:

D. Net charge-offs during fiscal year:

24. Allowance (reserves for possible loan losses at end of fiscal year):

MOST RECENT FISCAL YEAR
SECOND MORTGAGES ONLY

NUMBER DOLLAR

IV. OPERATING POLICIES:

This data should be reported for the quarter ending with the end of fiscal year shown on previous page.
The data reported should relate to originated loans only, not purchased loans.

25. Number and dollar volume of second mortgage loans originated for personal, family or household purposes during quarter: _____
26. Number and dollar volume of second mortgage loans originated for other than consumer purposes: _____
27. Number and total dollar volume of second mortgage loans originated during the quarter (should be equal to sum of #24 and #25): _____
28. Estimated percent of dollar volume consisting of "purchase money" second mortgages: _____
29. A. Number and volume of private mortgage insured loans: _____
B. Define private mortgage insurance policy: _____

30. With respect to second mortgage loans made to consumers:

A. Average ratio of loan to appraised equity:

_____ %

B. Maximum ratio of all mortgages to appraised value of property:

_____ %

C. Average written maturity of new loans - dollar weighted:

_____ Months

D. Average actual maturity of new loans - dollar weighted:

_____ Months

V. STATE SPECIFIC DATA ON OUTSTANDINGS AND FORECLOSURES:

For each state in which you operate, please record the following information: (If you operate in more than 3 states, please Xerox this page and provide information applicable to additional states on the copies.)

A. Name of State:	_____	_____	_____
B. Second mortgage outstandings in state*			
- Number	_____	_____	_____
- Dollar Value	_____	_____	_____
C. Originations in state during 1985:*			
- Number	_____	_____	_____
- Dollar Value	_____	_____	_____
D. Average APR for second mortgages originated:	_____	_____	_____
E. Second mortgage delinquencies:			
1. Number of accounts delinquent over 60 days:	_____	_____	_____
2. Dollar amount of accounts delinquent over 60 days:	_____	_____	_____
3. \$ of related receivables outstanding:	_____	_____	_____
F. 1. Number of foreclosures:	_____	_____	_____
2. Dollar value of liens:	_____	_____	_____
G. Foreclosed properties liquidated during 1985:			
1. Property sold (number):	_____	_____	_____
2. Property sold (dollar value):	_____	_____	_____

*Report outstandings and volume net of unearned interest if possible.

SUPPLEMENTARY SURVEY ON HOME EQUITY LINES

(ALSO KNOWN AS REVOLVING LOANS AND HOME EQUITY LOANS)

Home Equity Loans	Most Recent Month (Specify End Date _____) Number Dollars	Most Recent Fiscal Year (Specify End Date _____) Number Dollars	Previous Fiscal Year (Specify End Date _____) Number Dollars
1. Volume (originations)	_____	_____	_____
2. Outstanding Balances	_____	_____	_____
3. Total Authorized Lines	_____	_____	_____
4. Minimum Size of Credit Line	\$ _____	_____	_____
5. Maximum Size of Credit Line	\$ _____	_____	_____
6. Average Size of Credit Line	\$ _____	_____	_____
7. Minimum Required Payment of Principal	\$ _____	_____	_____
8.A. Type of Access to Loans: Checks _____ Credit Card _____ Other _____ (Please explain other) _____			
8.B. If credit card access is provided, is ATM access available? yes _____ no _____ If so, please give maximum withdrawal amounts daily _____ weekly _____ monthly _____			
9. May customers pay interest only: Yes _____ no _____			
10. If answer to 9 above is yes, what is % of customers paying interest only: _____ %			
11.A. Minimum possible draw on line of credit: \$ _____			
11.B. Is there required initial draw or a required outstanding balance? _____			
12. Period of time after which credit line must be paid off or converts to a term loan, if any: _____			
13. Frequency of interest rate adjustment: Daily _____ Weekly _____ Monthly _____ Quarterly _____ Other _____ (please specify other) _____			

14. Interest rate base: Wall Street prime 91-day T-bill rate _____
Other (please specify other) _____
15. Usual margin over interest rate base in basis points: _____
16. Size of annual interest rate cap, if any: _____
17. Size of interest rate life of loan cap, if any: _____
18. Do you offer a lower introductory rate: yes _____ no _____
19. Length of time for introductory rate, if offered: _____
- 20.A. Average cost (out of pocket) closing fees: \$ _____
- 20.B. Is there an annual membership fee? _____
- 21.A. Are all or some of these fees waived: yes _____ no _____
- 21.B. Is there an activation fee required for inactive accounts? yes _____ no _____
- 22.A. Do you offer lower rates of interest for progressively higher amounts borrowed: yes _____ no _____
- 22.B. If so, what are your scheduled rates: lowest rates _____
minimum balance required to get lowest rate _____
highest rate _____
balance below which highest rate is applied _____
23. Check type of appraisal used: drive by _____ abbreviated (comparables only) _____
full appraisal by internal appraiser _____
full appraisal by external appraiser _____
other (please specify other) _____
- 24.A. Credit report used: in file _____ standard factual data _____
other (please specify other) _____
- 24.B. Is a simplified qualifying (no income verification) program offered? yes _____ no _____
25. Do you require mortgage insurance: yes _____ no _____
26. What is the maximum loan to value ratio you permit: _____%
27. When did you begin your program: _____

28. Growth in outstanding balances over time (and use of credit lines).
 So we can calculate the average size of account balances (total balances divided by number of accounts) and average line usage (total balances divided by total lines), please provide:

For accounts initiated:	Number of Accounts	Total Balances	Total Lines
a. 0-3 months previously	_____	_____	_____
b. 3-6 months previously	_____	_____	_____
c. 6-9 months previously	_____	_____	_____
d. 9-12 months previously	_____	_____	_____
e. 1-2 years previously	_____	_____	_____
f. over 2 years previously	_____	_____	_____

QUESTIONNAIRE DEFINITIONS

REPORTING PERIOD

Most recent fiscal year ending on or closest to December 31, 1986.

PREVIOUS YEAR

Fiscal year exactly one year prior to the reporting period.

GROSS LOAN RECEIVABLE

Includes all principal loan balances due plus precomputed finance charges (unearned interest income) associated with those loans.

NET LOANS RECEIVABLE

Includes only principal loan balances due, i.e., net balances receivable equal gross balances receivable less precomputed finance charges (unearned interest income).

VOLUME OF NEW LOANS

Value of receivables originated and purchased during the period.

NEW MONEY

Amount of new money disbursed.

BALANCES RENEWED

Pre-existing balances refinanced.

AVERAGE NET LOANS RECEIVABLE

Sum of net loans receivable outstanding at beginning of each month (or quarter) during period divided by number of months (or quarters) in the fiscal year. Alternatively, daily average figures may be kept, or this year's net receivables can be added to last year's net receivables outstanding and divided by two.

AVERAGE BORROWINGS

Sum of total borrowings outstanding at beginning of each month (or quarter) during period divided by number of months (or quarters) in the fiscal year. Again, daily average figures can be used, or the average of year-end debt balances can be provided.

AVERAGE STOCKHOLDERS EQUITY

Sum of stockholders' equity at beginning of each month (or quarter) during period divided by number of months (or quarters) in the fiscal year.

"PURCHASE MONEY" SECOND MORTGAGE

Second mortgage used to help finance the borrower's initial purchase of the mortgaged property.

Please Note: If you have any questions regarding any part of this questionnaire, please phone Dr. Richard (Chip) Peterson at (806) 742-3365.

What does NSMA do and who belongs?

Since 1974 the National Second Mortgage Association has spearheaded the cause for better understanding and open communication lines in the second mortgage lending industry. The organization is comprised of representatives from major banks, bank holding companies, national and regional consumer finance companies, savings and loan associations and second mortgage companies. Additionally, there are associate members from insurance and marketing companies, plus other suppliers to the industry. Together, they bring financial strength from worldwide resources to an organization committed to professionalism, positive direction and continuous education to help the industry keep pace with the rapidly changing financial climate.

NSMA PUBLICATIONS

NSMA Summary Report — monthly
Washington Update — monthly
Equity Magazine — quarterly
Legislative Report — quarterly
Second Mortgage Statistical Survey — annually

NSMA ACTIVITIES

Regional Workshops
Lawyers Conferences
Educational Seminars
The Annual Conference

To request a Membership Package, you may phone or write:

**Membership Committee
National Second Mortgage Association
1166 DeKalb Pike
Center Square, PA 19422
Tel: (PA) (215) 277-3740
Other States 1-800-342-1121**